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Advanced Energy Solution (6781.TW)

2Q26 Beat and July Sales Affirm BBU Strength

CITI'S TAKE

AES's 2Q26 results were ahead of expectations, with net income beating our/BBG estimates by 12%/16%, primarily driven by stronger GPM. We believe the 3ppt q/q GPM expansion likely reflected a better product mix helped by more contributions of higher power BBU and improved fixed-cost leverage as shipment volumes increased. The beat suggests upside risk to our/BBG full year earnings estimates. Meanwhile, record July-26 sales, +28% y/y and +2% m/m, provide further evidence of sustained BBU demand momentum. Overall, the results reinforce our positive view on the BBU sector. We also see this as a positive read-across to Dynapack - AES's strong margin expansion suggests meaningful room for Dynapack's profitability to improve as its BBU sales scale, product mix shifts toward higher power products and operating leverage becomes more evident.

Buy	
Price (06 Aug 26 13:30)	NT$1,090.00
Target price	NT$1,680.00
Expected share price return	54.1%
Expected dividend yield	2.1%
Expected total return	56.2%
Market Cap	NT$93,106M
	US$2,885M

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2Q26 results beat on stronger margins — Sales rose 21% y/y and 6% q/q to NT$4.8bn, 2% above our estimate, while net income grew 33% y/y and 20% q/q to NT$1.1bn, beating our/BBG estimates by 12%/16%. The key positive surprise was GPM, which expanded 3.0ppt q/q to 39.1%. We believe the improvement was likely driven by a better product mix, particularly a higher contribution from higher power rating BBU products, together with stronger fixed-cost leverage as shipment volume increased. The margins beat suggests potential upside risk to our and BBG full year earnings forecasts.

July-26 sales provide further evidence of robust BBU demand — Sales reached another record high of NT$1.7bn, up 28% y/y and 2% m/m, extending the sequential growth momentum seen since March. The solid monthly performance following a strong 2Q suggests that demand remains healthy.

Implications — AES's strong results and solid July-26 sales reinforce our positive view on the BBU sector, supported by sustained AIDC infrastructure buildout, increasing BBU content and an ongoing shift toward higher-power products. The solid GPM expansion is also an encouraging read-across for Dynapack, our preferred BBU stock. It suggests meaningful room for Dynapack's profitability to improve as its

Earnings Summary

Year to 31 Dec	Net Profit (NT$M)	Diluted EPS (NT$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	2,169	25.39	10.2	42.9	6.3	15.7	1.1
2025A	3,263	38.20	50.4	28.5	5.5	20.7	1.7
2026E	3,959	46.35	21.3	23.5	4.5	21.2	2.1
2027E	5,240	61.35	32.4	17.8	3.9	23.6	2.8
2028E	6,671	78.09	27.3	14.0	3.3	25.7	3.5

Source: Powered by dataCentral

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

BBU revenue scales and higher-power 8kW/12kW products begin contributing more meaningfully.

Figure 1. AES: 2Q26 Results Comp

Consolidated financials	2Q26			1Q26	QoQ	2Q25	YoY	2Q26	
(NT$ mn)	Actual	Citi est.	Diff (%)	Actual	(%)	Actual	(%)	Consensus	Diff (%)
Revenue	4,808	4,707	2%	4,530	6%	3,972	21%	4,770	1%
Gross profits	1,878	1,713	10%	1,635	15%	1,439	31%	1,457	29%
Operating profits	1,311	1,143	15%	1,095	20%	986	33%	1,135	15%
Pretax earnings	1,386	1,233	12%	1,156	20%	1,048	32%	1,211	14%
Net income	1,094	974	12%	909	20%	825	33%	944	16%
EPS (NT$)	12.81	11.41	12%	10.64	20%	9.66	33%	11.05	16%
Magins (%)									
Gross margin	39.1%	36.4%	2.7%	36.1%	3.0%	36.2%	2.8%	35.5%	3.5%
Operaing margin	27.3%	24.3%	3.0%	24.2%	3.1%	24.8%	2.4%	23.8%	3.5%
Net margin	22.8%	20.7%	2.1%	20.1%	2.7%	20.8%	2.0%	19.8%	3.0%

Source: Citi Research, Citi Research Estimates, Company Reports, Bloomberg

Advanced Energy Solution

Valuation

Our target price of NT$1,680 is based on 27x 2026E EPS on par with its historical average since listing and supported by a 2025-28E earnings CAGR of 27%. We use 2027E as the year of valuation base as we think 2027E can better reflect its earnings power after the commercializarion of HVDC products.

Risks

Key downside risks to our earnings forecasts that could prevent the shares from reaching our target price include: 1) slower-than-expected end demand from e-Bikes post the pandemic and volaitlity in cloud capex deployment that could impact datacenter BBU sales; 2) component supply constraints/logistics challenges, which could lead to slower-than-expected shipment and top-line momentum; and 3) peer competition, which could impact sales growth and margins negatively, in our view.

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Appendix A-1

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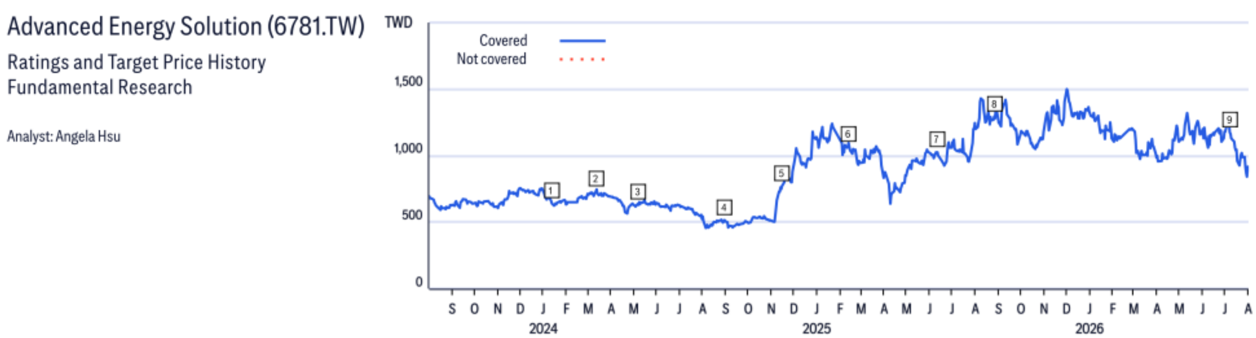
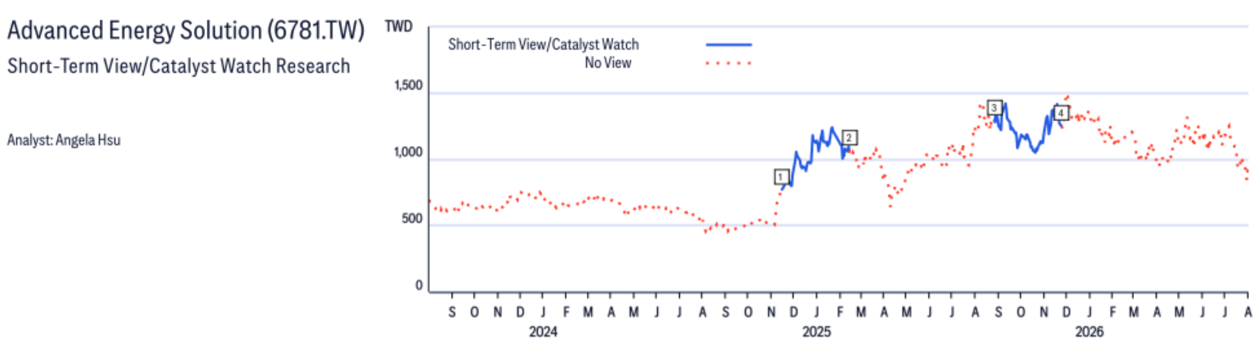


	Date	Rating	Target Price	Closing Price
1	12-Jan-24 03:58:35	1	*805.00	641.00
2	11-Mar-24 07:08:28	1	*870.00	731.00
3	07-May-24 05:19:12	1	*820.00	630.00
4	30-Aug-24 05:12:48	1	*670.00	515.00
5	15-Nov-24 07:46:33	1	*1,020.00	772.00
6	11-Feb-25 04:53:18	1	*1,220.00	1,065.00
7	10-Jun-25 00:11:45	1	*1,330.00	1,025.00
8	26-Aug-25 23:59:20	1	*1,660.00	1,295.00
9	07-Jul-26 04:00:10	1	*1,680.00	1,175.00

*Indicates Change

Rating/target price changes above reflect Eastern Time



	Date	Action	Expected Direction	Duration	Closing Price
1	15-Nov-24 02:46:33	Add STV	Upside	90 Days	772.00
2	13-Feb-25 19:44:16	Remove STV	Upside	90 Days	1,065.00
3	26-Aug-25 19:59:20	Add STV	Upside	90 Days	1,295.00
4	24-Nov-25 19:44:47	Remove STV	Upside	90 Days	1,250.00

CW - Catalyst Watch , STV - Short-Term View

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% of companies in each rating category that are investment banking clients	38%	42%	27%	42%	37%	36%

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