Action | Citi Research

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Advantech (2395.TW)

Strong Demand and Record Order in July, Yet Rich Valuation Caps Upside

CITI'S TAKE

Advantech hosted its 2Q26 briefing on Aug 5th. The mgmt. indicated demand momentum remains healthy with July bookings hitting a record figure and group BB ratio improving to 1.6x from 1.4x in 2Q26. 3Q26 sales are estimated to grow both q/q and y/y, driven by solid strength from semi, cloud infra, and factory automation demand. However, shortages of key components remain a near-term constraint, while higher component costs are being passed through partly. We increase our 2026-28E EPS 27-34% and lift our TP to NT$670 (35x NTM P/E). Maintain Neutral as the rich valuation appears to have priced in much of the improving demand outlook.

Regional and segment recovery remained broad-based — 2Q26 results beat on broad-based growth and strong operating leverage. Of the 33% y/y 2Q26 sales growth in USD term, the mgmt. attributed to 20ppt to volume growth and 13ppt to price increases. In 1H26, NA grew 30% y/y (in USD terms), driven by semi equipment, robotics, and cloud infra. EU increased 29% y/y, supported by medical, and factory automation, while China rose 51% y/y on stronger channel sales, semi and robotics projects.

Strong July bookings indicate a solid 2H outlook — The group's 2Q26 BB ratio remained strong at 1.4x, including 1.9x in NA, 1.3x in EU and 1.2x in China. July bookings reached a record US$570mn, lifting the monthly BB ratio to 1.6x and suggesting that demand momentum remains solid entering 3Q driven by the ongoing strength in edge AI computing in various end applications. The mgmt. expects 3Q26E sales to be up q/q and y/y, with GPM and OPM broadly stable q/q.

Component shortages remain the key execution risk — Per mgmt., PCB and CCL supply remains particularly tight, while DDR4 and SSD availability has improved but it not yet normalized. CPUs and PMICs also remain constrained, with extended lead times. Advantech expects 3Q material availability to remain manageable through early procurement, although PCB procurement would remain challenging in the coming quarter. A second round of price increases is underway, particularly for commodity-related products but the pass-through will be gradual; hence, meaningful GPM recovery may require component inflation to ease. (continued)

Earnings Summary

Year to 31 Dec	Net Profit (NT$M)	Diluted EPS (NT$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	9,005	10.46	-19.2	60.5	10.6	18.0	1.3
2025A	10,593	12.26	17.2	51.6	10.0	19.9	1.4
2026E	16,374	18.87	54.0	33.5	9.7	29.4	2.2
2027E	17,626	20.30	7.6	31.2	8.7	29.5	2.3
2028E	19,515	22.48	10.7	28.2	7.8	29.2	na

Source: Powered by dataCentral

Neutral	
Price (05 Aug 26 13:30)	NT$633.00
Target price	NT$670.00↑
from NT$405.00	
Expected share price return	5.8%
Expected dividend yield	2.2%
Expected total return	8.0%
Market Cap	NT$549,605M
	US$17,028M

Price Performance (RIC: 2395.TW, BB: 2395 TT)

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2395.TW: Fiscal year end 31-Dec

Price: NT$633.00; TP: NT$670.00; Market Cap: NT$549,605m; Recomm: Neutral

Profit & Loss (NT$m)	2024	2025	2026E	2027E	2028E
Sales revenue	59,786	70,882	97,828	106,409	116,736
Cost of sales	-35,410	-42,685	-60,406	-64,636	-70,709
Gross profit	24,376	28,198	37,422	41,773	46,027
Gross Margin (%)	40.8	39.8	38.3	39.3	39.4
EBITDA (Adj)	**9,984**	**12,559**	**19,429**	**21,178**	**23,328**
EBITDA Margin (Adj) (%)	16.7	17.7	19.9	19.9	20.0
Depreciation	-934	-992	-1,072	-1,083	-1,083
Amortisation	0	0	0	0	0
EBIT (Adj)	**9,050**	**11,567**	**18,357**	**20,095**	**22,245**
EBIT Margin (Adj) (%)	15.1	16.3	18.8	18.9	19.1
Net interest	294	252	312	314	453
Associates	-176	-102	467	175	175
Non-Op/Except/Other Adj	1,807	972	642	700	700
Pre-tax profit	**10,975**	**12,690**	**19,779**	**21,284**	**23,573**
Tax	-2,086	-2,189	-3,464	-3,716	-4,116
Extraord./Min.Int./Pref.div.	117	92	60	59	59
Reported net profit	**9,005**	**10,593**	**16,374**	**17,626**	**19,515**
Net Margin (%)	15.1	14.9	16.7	16.6	16.7
Core NPAT	9,005	10,593	16,374	17,626	19,515
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Reported EPS ($)	10.46	12.26	18.87	20.30	22.48
Core EPS ($)	10.46	12.26	18.87	20.30	22.48
DPS ($)	8.40	8.94	13.77	14.82	0
CFPS ($)	10.09	12.83	19.03	19.63	22.53
FCFPS ($)	7.94	9.13	16.81	18.48	21.38
BVPS ($)	59.55	63.46	65.10	72.57	81.27
Wtd avg ord shares (m)	861	864	868	868	868
Wtd avg diluted shares (m)	861	864	868	868	868
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue (%)	-7.4	18.6	38.0	8.8	9.7
EBIT (Adj) (%)	-25.4	27.8	58.7	9.5	10.7
Core NPAT (%)	-16.9	17.6	54.6	7.6	10.7
Core EPS (%)	-19.2	17.2	54.0	7.6	10.7
Balance Sheet (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Cash & cash equiv.	19,528	18,470	16,467	21,267	27,754
Accounts receivables	10,124	10,535	15,329	17,604	19,335
Inventory	10,554	11,835	15,752	17,923	19,679
Net fixed & other tangibles	12,244	14,452	15,308	15,225	15,142
Goodwill & intangibles	0	0	0	0	0
Financial & other assets	19,292	20,426	23,229	23,615	24,043
Total assets	**71,742**	**75,718**	**86,085**	**95,635**	**105,952**
Accounts payable	6,911	7,681	10,778	12,546	13,775
Short-term debt	0	0	0	0	0
Long-term debt	156	150	0	0	0
Provisions & other liab	12,878	12,837	18,614	19,899	21,428
Total liabilities	**19,945**	**20,668**	**29,391**	**32,446**	**35,203**
Shareholders' equity	51,428	54,947	56,574	63,070	70,630
Minority interests	369	102	119	119	119
Total equity	**51,797**	**55,049**	**56,693**	**63,189**	**70,749**
Net debt (Adj)	**-19,372**	**-18,319**	**-16,467**	**-21,267**	**-27,754**
Net debt to equity (Adj) (%)	-37.4	-33.3	-29.0	-33.7	-39.2

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	60.5	51.6	33.5	31.2	28.2
PB (x)	10.6	10.0	9.7	8.7	7.8
EV/EBITDA (x)	51.5	40.8	26.4	24.1	21.6
FCF yield (%)	1.3	1.4	2.7	2.9	3.4
Dividend yield (%)	1.3	1.4	2.2	2.3	na
Payout ratio (%)	80	73	73	73	0
ROE (%)	18.0	19.9	29.4	29.5	29.2
Cashflow (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	9,984	12,559	19,429	21,178	23,328
Working capital	-1,136	-406	-874	-1,605	-980
Other	-162	-1,066	-2,043	-2,527	-2,788
Operating cashflow	**8,686**	**11,086**	**16,512**	**17,046**	**19,560**
Capex	-1,852	-3,200	-1,928	-1,000	-1,000
Net acq/disposals	-125	-97	-1,194	-175	-175
Other	-829	-1,375	-912	0	0
Investing cashflow	**-2,806**	**-4,672**	**-4,034**	**-1,175**	**-1,175**
Dividends paid	-8,120	-7,252	-7,740	-11,965	-12,880
Financing cashflow	**-5,983**	**-7,473**	**-14,480**	**-11,072**	**-11,897**
Net change in cash	**-102**	**-1,059**	**-2,002**	**4,799**	**6,488**
Free cashflow to s/holders	**6,834**	**7,886**	**14,584**	**16,046**	**18,560**

For definitions of the items in this table, please click here.

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Implications — We raise our 2026-2028E sales estimates 17-22% and EPS forecasts by 27-34%, reflecting strong 2Q results, record bookings and management's constructive guidance. Our new TP of NT$670 is based on 35x 2H26-1H27E P/E, sitting at the higher end of its historical range, reflecting its solid demand outlook, improving OPM and ROE trend. While we remain positive on Advantech's leadership in industrial computing and edge AI, we remain Neutral given the stock's strong rally, premium valuation and lingering component-cost pressures.

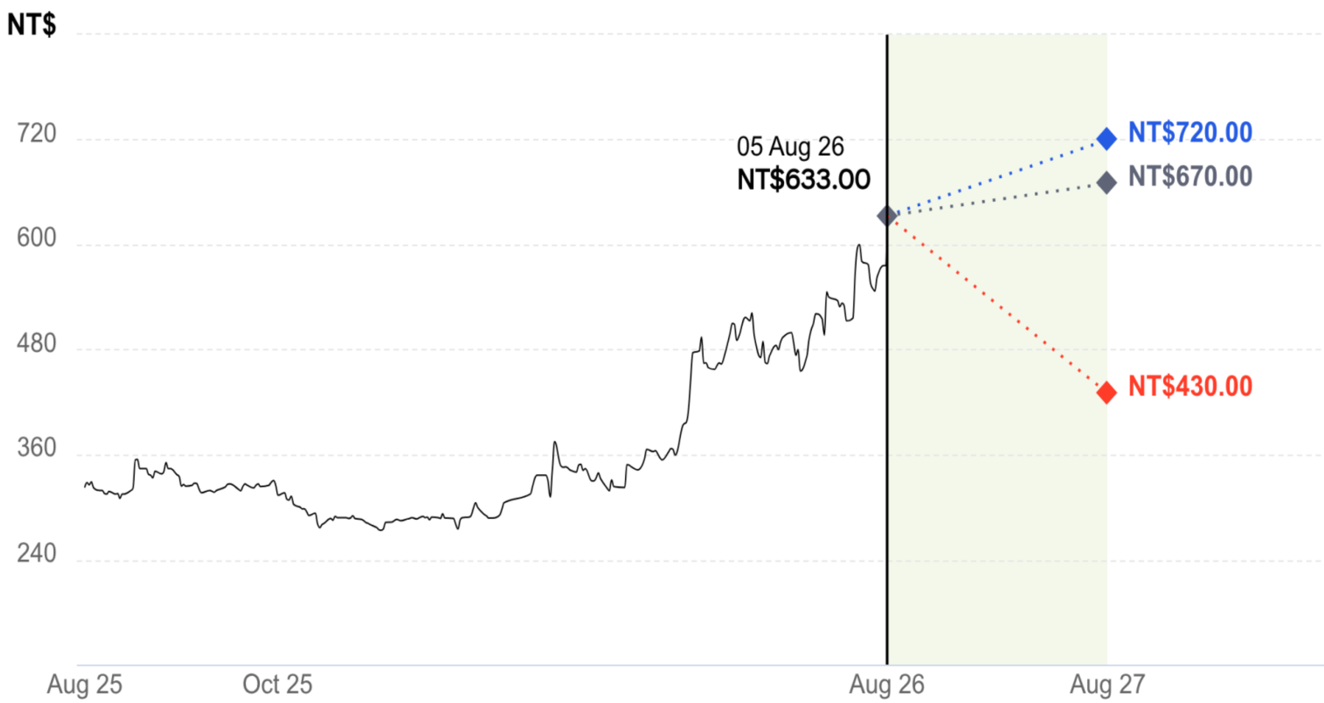
Figure 1. Earnings Estimates Revisions

	2026E			2027E			2028E		
(NT$mn)	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.
Sales	97,828	80,296	22%	106,409	89,498	19%	116,736	99,790	17%
Gross profit	37,422	31,445	19%	41,773	35,540	18%	46,027	39,864	15%
Opex	19,065	17,967	6%	21,678	20,376	6%	23,782	22,720	5%
Operating profit	18,357	13,478	36%	20,095	15,164	33%	22,245	17,144	30%
Pre-tax profit	19,779	14,778	34%	21,284	16,504	29%	23,573	18,594	27%
Net income	16,374	12,188	34%	17,626	13,606	30%	19,515	15,322	27%
EPS (NT$)	18.87	14.10	34%	20.30	15.74	29%	22.48	17.72	27%
Margins (%)									
Gross margin	38.3	39.2	-0.9	39.3	39.7	-0.5	39.4	39.9	-0.5
Opex ratio	19.5	22.4	-2.9	20.4	22.8	-2.4	20.4	22.8	-2.4
Operating margin	18.8	16.8	2.0	18.9	16.9	1.9	19.1	17.2	1.9
Net margin	16.7	15.2	1.6	16.6	15.2	1.4	16.7	15.4	1.4

Source: Citi Research, Citi Research Estimates

Bull/Bear: Advantech (2395.TW)

NT$ 720.00 ▲14% Upside | NT$ 670.00 ▲5.8% Upside | NT$ 430.00 ▼32% Downside



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Current Price and expected returns (upside/downside) as of 05 Aug 2026

BULL Assumptions

- Target multiple of 40x

BASE Assumptions

- Sales to grow by 35-40% y-o-y in 2026E with OPM of 18-19%
- Target multiple of 35x

BEAR Assumptions

- Target multiple of 27x

Advantech

Company description

Advantech, established in 1981, is the largest Industrial PC company globally in terms of sales. Through a series of M&As and alliances, it has established strong domain know-how across various verticals and its diversified customer base, and it provides broad product offerings ranging from single boards, industrial handheld devices, industrial automation equipment, transportation controlling systems, and smart city solutions. North America and China are its largest markets.

Investment strategy

We rate Advantech shares at Neutral. We think the company's relatively stable margins and improving ROE, as well as demand recovery from major markets should help support the share price performance. However, as these catalysts are likely reflected in the price, we think further upside would take a more broad-based demand recovery to justify.

Valuation

Our target price of NT$670 is based on 35x 2H26-1H27E EPS, at the high-cycle of the stock's valuation range between 20-35x since 2020, reflecting solid BB ratio, improving margin profile and ROE.

Risks

Key upside risks that could cause Advantech's shares to trade above our target price include: 1) better-than-expected marcoeconomic outlook; and 2) better-than-expected demand and margin profile. Key downside risks would include: 1) slower-than-expected demand recovery, especially the China market; and 2) further deterioration of demand in US and EU markets.

Appendix A-1

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IMPORTANT DISCLOSURES

Advantech (2395.TW)

Ratings and Target Price History
Fundamental Research

Analyst: Angela Hsu

	Date	Rating	Target Price	Closing Price
1	02-Aug-23 11:36:08	2	*380.00	382.00
2	01-Nov-23 09:54:14	2	*365.00	331.50
3	06-Mar-24 05:53:58	2	*405.00	390.50
4	30-Apr-24 08:15:04	2	*392.00	380.00
5	31-Jul-24 07:31:03	2	*370.00	346.50
6	06-Nov-24 14:12:12	2	*340.00	327.00
7	10-Dec-24 04:40:29	2	*350.00	353.50
8	05-Mar-25 07:23:58	2	*390.00	390.00
9	01-May-25 11:38:19	2	*360.00	337.00
10	06-Aug-25 08:41:29	2	*365.00	325.50
11	05-Nov-25 10:30:54	2	*340.00	308.00
12	06-May-26 10:02:05	2	*405.00	409.50

*Indicates Change

Rating/target price changes above reflect Eastern Time

Advantech (2395.TW)

Short-Term View/Catalyst Watch Research

Analyst: Angela Hsu

	Date	Action	Expected Direction	Duration	Closing Price
1	31-Jul-24 03:31:03	Add STV	Downside	30 Days	346.50
2	30-Aug-24 14:14:24	Remove STV	Downside	30 Days	349.00
3	06-Nov-24 09:12:12	Add STV	Downside	90 Days	327.00
4	04-Feb-25 19:44:16	Remove STV	Downside	90 Days	375.00
5	05-Mar-25 02:23:58	Add STV	Upside	30 Days	390.00
6	04-Apr-25 14:15:46	Remove STV	Upside	30 Days	390.00
7	01-May-25 07:38:19	Add STV	Downside	30 Days	337.00
8	30-May-25 14:27:05	Remove STV	Downside	30 Days	342.00
9	06-Aug-25 04:41:29	Add STV	Upside	30 Days	325.50
10	05-Sep-25 14:02:49	Remove STV	Upside	30 Days	341.00
11	05-Nov-25 05:30:54	Add STV	Downside	90 Days	308.00
12	03-Feb-26 19:57:44	Remove STV	Downside	90 Days	290.00

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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	12 Month Rating			Catalyst Watch		
Data current as of 01 Jul 2026	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage (Neutral=Hold)	61%	32%	7%	36%	48%	16%
% of companies in each rating category that are investment banking clients	38%	42%	27%	42%	37%	36%

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