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Advantech (2395.TW)

3Q26 First Take: Strong Earnings Beat but Cost Pressures Persist

CITI'S TAKE

Advantech reported 3Q26 net profits of NT$6.2bn (+38% q/q and +125% y/y), beating our/BBG est by 35%/28%, driven by stronger sales, op leverage and higher non-op income. While GPM declined further q/q on component inflation, robust sales growth supported OPM expansion. A BB ratio of 1.6x also points to healthy near-term momentum. We maintain Neutral as rich valuation already reflects much of the improving demand outlook, while material/component price inflation and gradual cost pas through remain margin risks. Advantech will host its results call on Nov 4th. We will provide further color and update our forecasts accordingly.

Neutral

Price (29 Oct 26 13:30)	NT$673.00
Target price	NT$670.00
Expected share price return	-0.4%
Expected dividend yield	2.0%
Expected total return	1.6%
Market Cap	NT$584,868M US$18,058M

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3Q recap - strong op leverage offset GPM pressure — 3Q26 net profits (+125% y/y) topped our/BBG estimates 35%/28% respectively owing mostly to stronger sales and larger degree of op leverage. Sales reached a record NT$32.4bn (+24% q/q and +83% y/y), 23%/12% above Citi/BBG estimate, which can be attributable to strong demand in edge AI, semi equipment and smart healthcare applications. GPM fell to 36.7% (-1ppt q/q and -2.2ppt y/y) below Citi/BBG estimates of 38.0%/37.6%, reflecting higher component prices. Nevertheless, OPM expanded to 20.9%, underpinned by strong op leverage on higher sales scale. OP profits +151% y/y beat Citi/BBG forecast 33%/21%, the key driver to the earnings beat.

Implications — Strong order intake is encouraging with 3Q BB ratio reaching 1.6x and NA particularly robust at 2.1x. However, we believe the stock's rich valuation limits further re-rating potential, particularly as a higher comparison base could moderate growth in 2027E. Continued GPM compression also reinforces our concerns over material/component inflation and the timing of price increases to offset higher costs. Advantech will host 3Q26 results call on Nov 4th. We will revisit our numbers and share key takeaways following management's updates.

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	64.3	11.3	18.0	1.2
2025A	10,593	12.26	17.2	54.9	10.6	19.9	1.3
2026E	16,374	18.87	54.0	35.7	10.3	29.4	2.0
2027E	17,626	20.30	7.6	33.2	9.3	29.5	2.2
2028E	19,515	22.48	10.7	29.9	8.3	29.2	na

Source: Powered by dataCentral

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

Figure 1. Advantech: 3Q26 Results Comp

NT$mn	3Q26 Actual	2Q26 Actual	Q/Q	3Q25 Actual	Y/Y	3Q26 Citi	Diff.	3Q26 BBG	Diff.
Revenue	32,440	26,126	24%	17,774	83%	26,339	23%	28,945	12%
COGS	20,544	16,281		10,866		16,319			
Gross profit	11,896	9,845	21%	6,908	72%	10,020	19%	10,877	9%
Opex	5,101	4,718		4,199		4,899			
Op. profit	6,795	5,127	33%	2,708	151%	5,122	33%	5,628	21%
Total non-op income	1,106	463		568		341			
Pre-tax profit	7,901	5,590	41%	3,276	141%	5,463	45%	5,927	33%
Net income	6,218	4,518	38%	2,766	125%	4,593	35%	4,842	28%
EPS (NT$)	7.15	5.20	37%	3.20	123%	5.29	35%	5.64	27%
Margins (%)									
GPM	36.7	37.7	(1.0)	38.9	(2.2)	38.0	(1.4)	37.6	(0.9)
OPM	20.9	19.6	1.3	15.2	5.7	19.4	1.5	19.4	1.5
OPEX Ratio	15.7	18.1	(2.3)	23.6	(7.9)	18.6	-2.9	0.0	15.7
Net Margin	19.2	17.3	1.9	15.6	3.6	17.4	1.7	16.7	2.4

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

Advantech

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.

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Appendix A-1

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Advantech (2395.TW)

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Fundamental Research

Analyst: Angela Hsu



	Date	Rating	Target Price	Closing Price
1	01-Nov-23 09:54:14	2	*365.00	331.50
2	06-Mar-24 05:53:58	2	*405.00	390.50
3	30-Apr-24 08:15:04	2	*392.00	380.00
4	31-Jul-24 07:31:03	2	*370.00	346.50
5	06-Nov-24 14:12:12	2	*340.00	327.00
6	10-Dec-24 04:40:29	2	*350.00	353.50
7	05-Mar-25 07:23:58	2	*390.00	390.00
8	01-May-25 11:38:19	2	*360.00	337.00
9	06-Aug-25 08:41:29	2	*365.00	325.50
10	05-Nov-25 10:30:54	2	*340.00	308.00
11	06-May-26 10:02:05	2	*405.00	409.50
12	06-Aug-26 09:47:06	2	*670.00	622.00

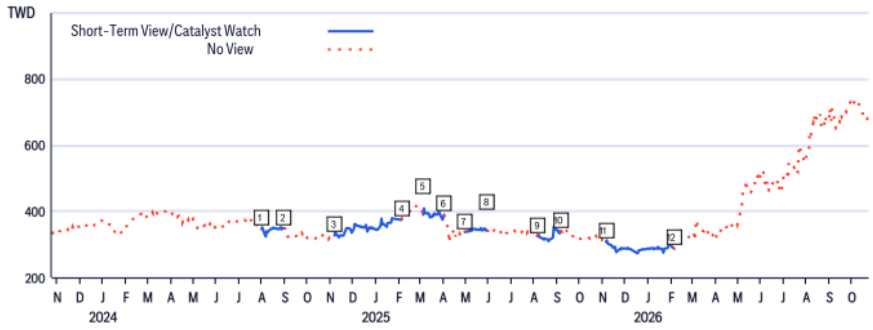
*Indicates Change

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

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