Delta Electronics (2308 TT)

Target price: **TWD3,000.00** (from TWD3,088.00)

Share price (29 Oct): **TWD1,480.00** | Up/downside: **+102.7%**

5 4 3 2 **1**

Buy
(unchanged)

3Q26 review: margin likely bottomed-out

- Gross margin to recover on lower inventory provisions in 4Q26
- Addressable market remains intact despite some near-term hiccups
- Reaffirming our Buy (1) rating; trimming 12M TP to TWD3,000

Sheng Cheng
(886) 2 8758 6253
sheng.cheng@daiwacm-cathay.com.tw

Thomas Kim
(886) 2 8758 6249
thomas.kim@daiwacm-cathay.com.tw



What's new: We provide our latest views on Delta after its 3Q26 results call on 29 October.

What's the impact: **Business outlook.** During the results call, Delta remained positive on AI monetisation after its analysis of Anthropic's S-1 filing. Management flagged shortages of components, power and skilled electricians and slower-than-expected data centre buildout to be potential hiccups in the process; however, it still sees strong underlying demand. As such, we still expect sequential revenue growth in both 4Q26E and 1Q27E as component shortages had deferred 3Q26 demand. On rising material costs, Delta noted that BoM costs have increased by 2% as of 3Q26 (vs. early 2026), with the company gradually passing these costs through to end customers in 4Q26 and 1Q27. We believe the main gross margin driver will likely still be the absence of inventory write-offs and a higher power mix in 4Q26E. We forecast a gross margin recovery to 36% and a record operating margin of 18.5% in 4Q26. As for long-term growth, we maintain our investment theses that DC-DC module and HVDC adoption will become key growth drivers for Delta in 2027 and 2028, respectively.

3Q26 results missed on gross margin. Delta's 3Q26 earnings were TWD23.5bn (EPS: TWD9.04), missing our estimate of TWD27.3bn and Bloomberg consensus estimate of TWD29.6bn by 14% and 21%, respectively. We attribute the weakness mainly to lower-than-expected gross margin, driven by: 1) higher-than-expected inventory write-offs amid product shipment hiccups; 2) a one-off provision for customer claims, with the related loss likely to ultimately be borne by the supplier; and 3) rising material costs. Based on our calculation, Delta recognised c.TWD4bn of inventory provision loss in 3Q26, which reduced gross margin by 2pp. Excluding inventory provision loss, gross margin was c.35.8%, close to our previous estimate of 36.3%. 3Q26 revenue reached TWD197.1bn (up 8% QoQ and 31% YoY), which was also negatively affected by product shipment hiccups (vs. our previous estimate of 10% QoQ growth).

What we recommend: We trim our 2026-28E EPS by 2-6% to reflect lower revenue assumptions due to the impact of component shortages. We reaffirm our Buy (1) call but trim our 12M TP to TWD3,000 (from TWD3,088) based on an unchanged target PER of 49x (high-end of its 3-year range of 11-50x) applied to our 1-year-forward EPS forecast. Key downside risk: lower-than-expected demand.

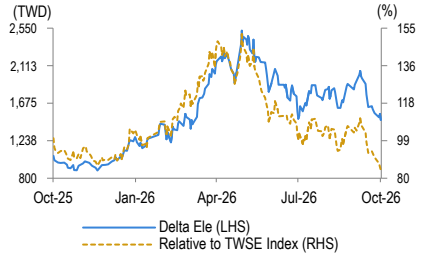
How we differ: Our 2028E revenue is 12% above the Bloomberg consensus, likely on our more bullish assumption regarding HVDC adoption.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	(2.1)	(4.5)	(4.4)
Net profit change	(5.7)	(3.6)	(2.2)
Core EPS (FD) change	(5.7)	(3.6)	(2.2)

Source: Daiwa forecasts

Share price performance



12-month range	890.00-2,520.00
Market cap (USDbn)	118.57
3m avg daily turnover (USDm)	657.14
Shares outstanding (m)	2,598
Major shareholder	Hsiang Ta International (10.3%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	756,535	1,080,156	1,749,466
Operating profit (m)	131,954	220,210	397,270
Net profit (m)	98,942	159,427	289,735
Core EPS (fully-diluted)	38.091	61.376	111.542
EPS change (%)	64.6	61.1	81.7
Daiwa vs Cons. EPS (%)	(5.7)	(4.4)	17.0
PER (x)	38.9	24.1	13.3
Dividend yield (%)	0.8	1.4	2.0
DPS	11.6	20.0	30.0
PBR (x)	10.6	7.9	5.3
EV/EBITDA (x)	23.9	15.0	8.6
ROE (%)	31.4	37.5	47.9

Source: FactSet, Daiwa forecasts

See important disclosures, including any required research certifications, beginning on page 6

Flash

Delta: revenue and earnings forecasts – Daiwa vs. consensus

	2026E			2027E			2028E		
(TWDm)	Previous	New	Consensus	Previous	New	Consensus	Previous	New	Consensus
Revenue	772,369	756,535	774,837	1,130,604	1,080,156	1,048,818	1,830,517	1,749,466	1,557,095
Diff (%)		-2.1%	-2.4%		-4.5%	3.0%		-4.4%	12.4%
Gross Margin (%)	36.4%	35.6%	36.3%	36.6%	36.8%	37.4%	37.4%	38.1%	37.8%
Operating profit	139,487	131,954	139,160	228,659	220,210	226,553	406,934	397,270	339,515
Op Margin (%)	18.1%	17.4%	18.0%	20.2%	20.4%	21.6%	22.2%	22.7%	21.8%
Net profit	104,917	98,942	104,917	165,332	159,427	166,703	296,181	289,735	247,703
EPS	40.39	38.09	40.39	63.65	61.38	64.18	114.02	111.54	95.36
Diff (%)		-5.7%	-5.7%		-3.6%	-4.4%		-2.2%	17.0%

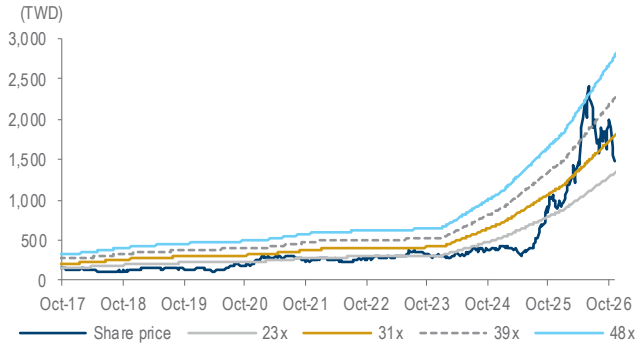
Source: Bloomberg, Daiwa forecasts

Delta: quarterly and annual P&L statement

	2026E				2027E				2025	2026E	2027E	2028E
(TWDm)	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE				
Net revenue	**159,353**	**183,256**	**197,059**	**216,867**	**221,125**	**252,973**	**287,220**	**318,838**	**554,885**	**756,535**	**1,080,156**	**1,749,466**
COGS	-100,392	-117,948	-129,904	-138,786	-140,612	-159,902	-180,713	-201,475	-364,729	-487,030	-682,702	-1,083,192
Gross profit	**58,961**	**65,308**	**67,155**	**78,082**	**80,512**	**93,071**	**106,508**	**117,363**	**190,157**	**269,505**	**397,454**	**666,274**
Operating expenses	-30,544	-34,738	-34,535	-37,735	-38,476	-42,499	-46,530	-49,739	-106,224	-137,551	-177,244	-269,004
Operating profit	**28,417**	**30,570**	**32,620**	**40,347**	**42,037**	**50,571**	**59,978**	**67,624**	**83,932**	**131,954**	**220,210**	**397,270**
Non-operating profit	2,676	4,430	1,046	1,694	1,199	1,187	1,179	1,390	3,934	9,846	4,955	5,249
Pretax profit	**31,093**	**35,000**	**33,666**	**42,041**	**43,236**	**51,758**	**61,157**	**69,014**	**87,866**	**141,800**	**225,165**	**402,518**
Income taxes	-7,258	-7,831	-7,608	-9,249	-9,512	-11,387	-13,455	-15,183	-19,930	-31,946	-49,536	-86,541
Net profit	**20,556**	**25,136**	**23,495**	**29,756**	**30,407**	**36,577**	**43,394**	**49,049**	**60,108**	**98,942**	**159,427**	**289,735**
Net EPS (TWD)	**7.91**	**9.68**	**9.04**	**11.46**	**11.71**	**14.08**	**16.71**	**18.88**	**23.14**	**38.09**	**61.38**	**111.54**
Operating Ratios												
Gross margin	37.0%	35.6%	34.1%	36.0%	36.4%	36.8%	37.1%	36.8%	34.3%	35.6%	36.8%	38.1%
Operating margin	17.8%	16.7%	16.6%	18.6%	19.0%	20.0%	20.9%	21.2%	15.1%	17.4%	20.4%	22.7%
Pre-tax margin	19.5%	19.1%	17.1%	19.4%	19.6%	20.5%	21.3%	21.6%	15.8%	18.7%	20.8%	23.0%
Net margin	12.9%	13.7%	11.9%	13.7%	13.8%	14.5%	15.1%	15.4%	10.8%	13.1%	14.8%	16.6%
YoY (%)												
Net revenue	34%	48%	31%	34%	39%	38%	46%	47%	32%	36%	43%	62%
Gross profit	56%	48%	28%	40%	37%	43%	59%	50%	39%	42%	47%	68%
Operating profit	102%	64%	31%	53%	48%	65%	84%	68%	76%	57%	67%	80%
Pretax profit	99%	79%	25%	64%	39%	48%	82%	64%	71%	61%	59%	79%
Net profit	101%	80%	26%	72%	48%	46%	85%	65%	71%	65%	61%	82%
QoQ (%)												
Net revenue	-1%	15%	8%	10%	2%	14%	14%	11%				
Gross profit	5%	11%	3%	16%	3%	16%	14%	10%				
Operating profit	8%	8%	7%	24%	4%	20%	19%	13%				
Pretax profit	21%	13%	-4%	25%	3%	20%	18%	13%				
Net profit	19%	22%	-7%	27%	2%	20%	19%	13%				

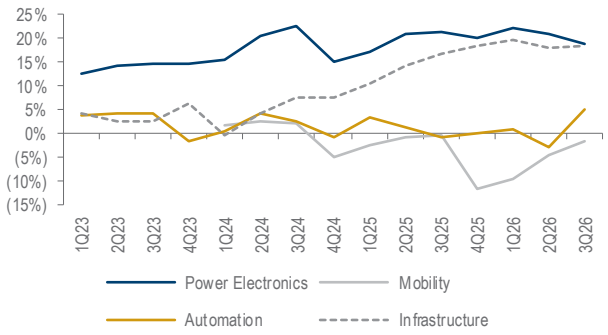
Source: Company, Daiwa forecast

Delta: 1-year forward PER band



Source: TEJ, Daiwa forecasts

Delta: operating margin by segment (quarterly)



Source: Company

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Automation revenue growth (YoY)	18	19	(0)	(3)	5	12	8	7
Infrastructure revenue growth (YoY)	(8)	26	(4)	2	82	37	45	46
Power Electronics sales growth (YoY)	21	21	9	(10)	25	46	49	80

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Power Electronics	187,316	227,311	248,257	223,992	280,032	409,251	610,724	1,099,848
Automation	45,881	54,519	54,296	52,403	54,943	61,691	66,914	71,587
Other Revenue	81,474	102,613	98,674	144,752	219,911	285,593	402,518	578,031
Total Revenue	**314,671**	**384,443**	**401,227**	**421,148**	**554,885**	**756,535**	**1,080,156**	**1,749,466**
Other income	0	0	0	0	0	0	0	0
COGS	(224,461)	(273,671)	(284,013)	(284,567)	(364,729)	(487,030)	(682,702)	(1,083,192)
SG&A	(31,642)	(37,564)	(40,215)	(47,354)	(57,482)	(73,967)	(91,411)	(139,621)
Other op.expenses	(27,202)	(31,770)	(36,048)	(41,575)	(48,743)	(63,584)	(85,832)	(129,383)
Operating profit	**31,365**	**41,439**	**40,950**	**47,652**	**83,932**	**131,954**	**220,210**	**397,270**
Net-interest inc./(exp.)	134	38	899	1,859	1,501	1,517	1,475	1,469
Assoc/forex/extraord./others	4,128	4,588	6,793	1,804	2,433	8,329	3,480	3,780
Pre-tax profit	**35,628**	**46,065**	**48,642**	**51,316**	**87,866**	**141,800**	**225,165**	**402,518**
Tax	(7,128)	(9,075)	(9,762)	(10,925)	(19,930)	(31,946)	(49,536)	(86,541)
Min. int./pref. div./others	(1,703)	(4,325)	(5,488)	(5,163)	(7,828)	(10,912)	(16,202)	(26,242)
Net profit (reported)	**26,796**	**32,666**	**33,393**	**35,229**	**60,108**	**98,942**	**159,427**	**289,735**
Net profit (adjusted)	**26,796**	**32,666**	**33,393**	**35,229**	**60,108**	**98,942**	**159,427**	**289,735**
EPS (reported)(TWD)	**10.316**	**12.576**	**12.855**	**13.562**	**23.140**	**38.091**	**61.376**	**111.542**
EPS (adjusted)(TWD)	**10.316**	**12.576**	**12.855**	**13.562**	**23.140**	**38.091**	**61.376**	**111.542**
EPS (adjusted fully-diluted)(TWD)	**10.316**	**12.576**	**12.855**	**13.562**	**23.140**	**38.091**	**61.376**	**111.542**
DPS (TWD)	**5.500**	**5.500**	**9.840**	**6.430**	**7.000**	**11.600**	**20.000**	**30.000**
EBIT	**31,365**	**41,439**	**40,950**	**47,652**	**83,932**	**131,954**	**220,210**	**397,270**
EBITDA	**48,516**	**60,375**	**62,540**	**72,668**	**111,771**	**161,119**	**257,184**	**441,438**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	35,628	46,065	48,642	51,316	87,866	141,800	225,165	402,518
Depreciation and amortisation	17,151	18,936	21,590	25,016	27,839	29,164	36,974	44,168
Tax paid	(7,128)	(9,075)	(9,762)	(10,925)	(19,930)	(31,946)	(49,536)	(86,541)
Change in working capital	(20,506)	(20,062)	2,466	(2,538)	(24,348)	(75,518)	(99,763)	(139,263)
Other operational CF items	3,175	10,665	8,151	10,025	27,047	(155)	(80)	(80)
Cash flow from operations	**28,319**	**46,529**	**71,086**	**72,895**	**98,474**	**63,346**	**112,760**	**220,802**
Capex	(23,027)	(21,824)	(27,830)	(33,485)	(46,091)	(70,358)	(64,809)	(83,974)
Net (acquisitions)/disposals	(1,953)	(2,489)	(5,421)	(304)	(2,702)	0	0	0
Other investing CF items	(1,501)	(406)	(251)	(6,571)	(4,420)	0	0	0
Cash flow from investing	**(26,481)**	**(24,719)**	**(33,502)**	**(40,360)**	**(53,214)**	**(70,358)**	**(64,809)**	**(83,974)**
Change in debt	6,993	(1,900)	10,327	7,135	11,729	0	0	0
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(15,751)	(15,026)	(27,455)	(18,696)	(20,313)	(30,132)	(51,951)	(77,926)
Other financing CF items	421	(2,814)	6,651	444	(817)	0	0	0
Cash flow from financing	**(8,337)**	**(19,739)**	**(10,478)**	**(11,118)**	**(9,401)**	**(30,132)**	**(51,951)**	**(77,926)**
Forex effect/others	(2,358)	9,621	(1,198)	8,586	(2,146)	0	0	0
Change in cash	**(8,857)**	**11,692**	**25,909**	**30,003**	**33,713**	**(37,143)**	**(4,001)**	**58,901**
Free cash flow	5,292	24,705	43,257	39,410	52,383	(7,011)	47,950	136,828

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cash & short-term investment	51,268	63,572	92,620	121,793	155,113	117,970	113,969	172,871
Inventory	69,697	83,980	81,756	89,706	108,208	146,708	211,561	313,213
Accounts receivable	72,700	89,676	81,706	92,180	125,020	168,618	237,859	351,023
Other current assets	3,213	3,222	3,877	7,246	7,440	7,440	7,440	7,440
Total current assets	**196,878**	**240,450**	**259,958**	**310,925**	**395,781**	**440,736**	**570,829**	**844,547**
Fixed assets	76,607	86,267	98,002	115,710	142,040	183,233	211,068	250,875
Goodwill & intangibles	73,610	77,170	78,544	78,783	75,326	75,326	75,326	75,326
Other non-current assets	18,017	21,987	21,242	26,480	26,472	26,626	26,706	26,786
Total assets	**365,112**	**425,874**	**457,747**	**531,898**	**639,619**	**725,922**	**883,930**	**1,197,534**
Short-term debt	4,442	2,119	5,875	8,121	17,325	2,364	2,364	2,364
Accounts payable	54,570	62,716	53,539	69,223	94,452	101,032	135,362	210,916
Other current liabilities	49,157	60,179	66,671	74,939	97,888	97,888	97,888	97,888
Total current liabilities	**108,169**	**125,013**	**126,085**	**152,283**	**209,665**	**201,285**	**235,615**	**311,169**
Long-term debt	43,914	44,337	51,420	56,309	56,703	56,703	56,703	56,703
Other non-current liabilities	26,904	31,156	37,506	43,740	47,861	47,861	47,861	47,861
Total liabilities	**178,988**	**200,507**	**215,011**	**252,332**	**314,230**	**305,849**	**340,179**	**415,733**
Share capital	25,975	25,975	25,975	25,975	25,975	25,975	25,975	25,975
Reserves/R.E./others	128,811	160,813	173,188	204,112	242,083	336,766	460,444	698,495
Shareholders' equity	**154,787**	**186,789**	**199,164**	**230,087**	**268,058**	**362,741**	**486,419**	**724,470**
Minority interests	31,338	38,578	43,572	49,478	57,331	57,331	57,331	57,331
Total equity & liabilities	**365,112**	**425,874**	**457,747**	**531,898**	**639,619**	**725,922**	**883,930**	**1,197,534**
EV	3,872,790	3,865,827	3,852,611	3,836,479	3,820,611	3,842,793	3,846,793	3,787,892
Net debt/(cash)	**(2,912)**	**(17,115)**	**(35,325)**	**(57,363)**	**(81,085)**	**(58,903)**	**(54,902)**	**(113,803)**
BVPS (TWD)	**59.590**	**71.910**	**76.674**	**88.579**	**103.197**	**139.648**	**187.261**	**278.906**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	11.3	22.2	4.4	5.0	31.8	36.3	42.8	62.0
EBITDA (YoY)	2.6	24.4	3.6	16.2	53.8	44.2	59.6	71.6
Operating profit (YoY)	(0.2)	32.1	(1.2)	16.4	76.1	57.2	66.9	80.4
Net profit (YoY)	5.1	21.9	2.2	5.5	70.6	64.6	61.1	81.7
Core EPS (fully-diluted) (YoY)	5.1	21.9	2.2	5.5	70.6	64.6	61.1	81.7
Gross-profit margin	28.7	28.8	29.2	32.4	34.3	35.6	36.8	38.1
EBITDA margin	15.4	15.7	15.6	17.3	20.1	21.3	23.8	25.2
Operating-profit margin	10.0	10.8	10.2	11.3	15.1	17.4	20.4	22.7
Net profit margin	8.5	8.5	8.3	8.4	10.8	13.1	14.8	16.6
ROAE	17.8	19.1	17.3	16.4	24.1	31.4	37.5	47.9
ROAA	7.6	8.3	7.6	7.1	10.3	14.5	19.8	27.8
ROCE	13.8	16.4	14.3	14.8	22.6	30.0	40.7	55.0
ROIC	14.6	17.0	15.7	17.5	27.8	33.8	40.4	53.9
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	20.0	19.7	20.1	21.3	22.7	22.5	22.0	21.5
Accounts receivable (days)	79.7	77.1	78.0	75.4	71.4	70.8	68.7	61.4
Current ratio (x)	1.8	1.9	2.1	2.0	1.9	2.2	2.4	2.7
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	56.1	53.3	78.2	50.0	51.6	50.1	52.5	48.9
Free cash flow yield	0.1	0.6	1.1	1.0	1.4	n.a.	1.2	3.6

Source: FactSet, Daiwa forecasts

Company profile

Founded in 1971, Delta Electronics has been the global leader in switching power supply solutions since 2002 and DC brushless fans since 2006. Its business covers 3 key areas: power electronics (eg, power supplies, thermal management products and passive components), automation (eg, controllers, robot arms and building management systems), and infrastructure (eg, datacentre infrastructure, networking and EV charging).

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	1	Delta's board has 7 non-independent and 5 independent directors with a term of three years. The total number of directors and ratio of independent directors appear higher than most other listed companies. Besides, according to Delta's CSR report, enhancing the board's functions is one of the key goals for the company to achieve better corporate governance; also, the board members' diversity and professionalism will be taken into consideration to ensure a good board quality. Moreover, the company evaluates all the directors in the board using internal regulations and an external independent institution each year and at least once every three years, respectively. We believe Delta has implemented relatively more enhanced measure than most listed firms to improve its board quality.
	Capital management	2	During 2016-19, Delta's payout ratio was stable in the range of c.70%, but fell to 56% in 2020 and 53% in 2021. For 2020, it was mainly due to a sizeable non-cash re-valuation gain after the acquisition of Delta Thailand (DET), while the company maintained more cash on hand to deal with the uncertainties caused by COVID-19. However, the DPS growth from 2016 to 2021 was limited, as Delta struggled with business diversification into new end-markets (eg, smartphone, NEV). We believe that Delta's effort started to bear fruit in recent years after its NEV business has gradually picked up. Overall, we see a stable dividend policy from Delta and expect its DPS to continue to grow YoY in the future given that they declared a TWD11.6 DPS for 2025 which equals a 50% payout ratio.
	Related party & transaction	1	Revenue from related parties stood at 12% of total 2025 revenue and purchases from related parties were at 11%. We see limited risk from related party transactions.
S	Supply chain management	1	Delta focuses on: 1) localised management, 2) supplier certification and risk management, and 3) supplier sustainability engagement as key initiatives under the scope of supply chain management. In 2019, 144 new suppliers joined Delta's supply chain system. All of them passed environmental and social evaluations, signed the declaration of "non-use of conflict materials", and complied with Responsible Business Alliance's (BRA) Code of Conduct. Also, these vendors had to implement and abide by Delta's supply chain CSR policy and code of conduct. To lower ESG risks, Delta carries out RBA audits and monitors high-risk critical suppliers each year. The suppliers that fail these audits have to provide detailed improvement plans in response to identified issues. Besides, Delta has surveyed a total of 263 suppliers with potential risk and 63 suppliers with high risk of the total 1,331 suppliers, based on its CSR policy and code of conduct. If these suppliers are flagged as high-risk and no concrete improvements are made, Delta may consider terminating cooperation and transactions with them to improve the company's engagement on supplier sustainability. Overall, we think Delta has a solid plan to improve its supply chain management with specific KPIs, including: 1) achieving supplier improvement rate of 80% in 2025, 2) reducing GHG emissions rate of critical suppliers by 10% in 2025, and 3) improving water saving rate of critical suppliers by 12% in 2025.
S	Data security	2	Delta's Information Security team created Delta's Information Security Policy in November 2013 and started providing educational training to global employees in 2014. Delta gradually introduced the Information Security Management System (ISMS) in 2016 and obtained the ISO 27001 international certification in 2018. According to ISO27001, Delta has to conduct at least one internal audit on information security and appoint an independent institution to conduct audit externally. According to Delta, no major deficiencies have been found in recent years.

Note: Management score represents a company's ability to manage/benefit from certain ESG topics. The scores range from 1 to 3, with 1 being the strongest.

Update Date: 30 Sep 2026
Source: Daiwa, Company

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