Advantech (2395 TT)

Share price (31 Jul): **TWD563.00** 12-mth rating: **Outperform (2)** **Information Technology: Taiwan**

2Q26 results first-take: beat on strong end demand

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Summary: Advantech's 2Q26 net profit was TWD4.52bn (EPS: TWD5.2), 32% higher than our estimate (TWD3.42bn) and the Bloomberg consensus (TWD3.43bn). 2Q26 revenue of TWD26.1bn was higher than our estimate (TWD22.7bn) and the company's guidance range of TWD20.5-21bn, which we attribute to solid industrial demand and ongoing price hikes. Per management, they have seen price hikes proliferating into diversified components (such as memory and CPU) This also caused the gross margin (37.7%) in 2Q26 to be lower than its guidance range of 38-40% and our estimate of 39.8%. However, operating margin came in stronger at 19.6% (vs. our estimate of 17.7% and street's estimate of 18.2%) due to better operating leverage despite a lower gross margin.

Looking ahead, while the 2Q26 B/B ratio came down QoQ, management remained positive on the revenue momentum in 3Q26. In terms of edge AI, Advantech has seen the proliferation into different end applications speeding up since 1Q26. Considering the blended gross margin from edge AI is at 40-42%, Advantech's overall gross margin could expand along with a rising edge AI contribution. Advantech will host its 2Q26 results call on 5 August at 14:00 and we will provide updates in due course. We have an Outperform (2) rating on this name.

Advantech's 2Q26 results highlights

(TWDm)	Actual	QoQ%	YoY%	Daiwa	Diff %	Consensus	Diff %
Revenues	26,126	28%	46%	22,695	15%	22,145	18%
Gross profit	9,845	23%	38%	9,029	9%	8,734	13%
Gross margin (%)	37.7%			39.8%		39.4%	
Operating profit	5,127	38%	64%	4,014	28%	4,019	28%
Operating margin (%)	19.6%			17.7%		18.2%	
Pre-tax profit	5,590	37%	124%	4,253	31%	4,204	33%
Net profit	4,518	36%	127%	3,419	32%	3,430	32%
EPS (TWD)	5.22	36%	127%	3.96	32%	3.97	32%

Source: Company data, Daiwa forecasts, Bloomberg

What's the impact:

- **2Q26 results first-take: results beat on pull-in demand.** Advantech's 2Q26 net profit was TWD4.52bn (EPS: TWD5.2), 32% higher than our estimate (TWD3.42bn) and the Bloomberg consensus (TWD3.43bn). 2Q26 revenue of TWD26.1bn was 15% higher than our estimate (TWD22.7bn) and the company's guidance range of TWD20.5-21bn, which we attribute to solid industrial demand and ongoing price hikes. Per management, they have seen price hikes proliferating into diversified components (such as memory and CPU with price increases of 10-20%). This also caused the gross margin (37.7%) in 2Q26 to be lower than its guidance range of 38-40% and our estimate of 39.8%. However, operating margin came in stronger at 19.6% (vs. our estimate of 17.7% and street's estimate of 18.2%) due to better operating leverage despite a lower gross margin. Lastly, Advantech's B/B ratio decreased to 1.44 in 2Q26 (1Q26: 1.77; 4Q25: 1.33; 3Q25: 1.01).

- **Business outlook.** Looking ahead, while the 2Q26 B/B ratio came down QoQ, management remained positive on the revenue momentum in 3Q26. As for the gross margin, the company is still aggressively reviewing its pricing in order to pass through additional material costs. As such, the longer-term gross margin range should remain at 39-40% when the raw material environment stabilises. As for edge AI, the company is confident of its adoption rate in different end applications (eg. medical and manufacturing industries) having seen a pick-up since 1Q26. Regarding profitability from edge AI, we believe it should be slightly higher than the 40-42% for non-AI, which should be an accretive factor for blended gross margin expansion in the longer term.

What we recommend:

We have an Outperform (2) rating on this stock. Advantech will hold a 2Q26 results call on 5 August at 14:00 and we will provide updates in due course. Key downside risk: softer-than-expected IPC demand recovery.

In the interests of timeliness, this document has not been edited.

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Source: Daiwa

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