廣發証券(香港)經紀有限公司
GF SECURITIES (HONG KONG) BROKERAGE LIMITED

Dell Technologies (DELL US)

Preview; Neocloud Dynamics, Enterprise/PC Moderation

Downgrade **Hold**

Target price $ 428

Retain Hold: Dell's share price has remained relatively resilient amid the tech retreat in July, supported by momentum across AI & GP servers, as evidenced by recent OEMs' beats. Nevertheless, we see early signs of moderation on enterprise and PC demand following robust 1H26 pull-ins. Competition wise, consistent with our view, we see increasing evidence that Dell's leading position is eroding starting with Rubin, as we believe Hon Hai has recently secured more wins from SpaceX. On the positive front, accelerating infrastructure buildouts for tier-2 Neoclouds should provide support to Dell's AI backlog, alongside Vera CPU racks to Oracle and SpaceX. We revise our EPS estimates for FY27E/FY28E to reflect stronger AI outlook for Neoclouds. That said, we reiterate that the stock is unattractive at ~20x FY28E EPS. Our TP of $428 is still based on 18x FY28E EPS.

F2Q27E Preview; Set for Guidance Raise: For F2Q27E, we forecast revenue of $42.2bn (vs. guidance of $44.5bn at mid-point and consensus of $44.8bn), reflecting AI server shipment timing. GM is projected at 18.3% and EPS of $4.70, versus consensus of 17.4% and $4.84. For FY27E, we expect the company to raise its AI server guidance again (likely to $75bn), which would support upward revisions to its full-year revenue & EPS from $167bn and $17.90 now. However, we believe this is anticipated by the market.

Neoclouds Tailwinds & Headwinds: Backed by recent OEMs beats and Nvidia's CEO commentary on ACIE growth, we expect stronger AI server deployments (NVL72/HGX) across IREN, NScale, and Crusoe (tier-2 Neoclouds) to support Dell's AI backlog, along with Vera CPU racks shipments to Oracle and SpaceX. On the negative side, we believe Hon Hai (2317 TT Buy) has secured more orders (multi-k) from SpaceX, weakening Dell's major share position on Rubin cycle. We revise Dell's NVL72 shipment to 17k/20k in FY27E/FY28E.

Enterprise/PC Momentum to Moderate? Post solid GP server sales in 1H26 for enterprise, we see the early signs of momentum slowing down, partly constrained by memory. On PC, with weakening sell-through and moderation of ODM builds, we expect a QoQ decline throughout 3Q & 4Q. For now, we forecast its traditional server and CSG revenue growth of +75%/+4% in FY27E, respectively.

Risks: 1) AI demand slows down; 2) Components supply constraint; 3) Competition.

Profit forecast

	FY25	FY26	FY27E	FY28E	FY29E
Revenue (m)	95,567	113,538	200,652	263,549	295,622
Revenue YoY (%)	8.1	18.8	76.7	31.3	12.2
Net profit (m)	5,863	7,046	14,328	15,383	16,617
Net profit YoY (%)	8.1	20.2	103.4	7.4	8.0
EPS ($)	8.1	10.3	22.0	23.8	25.9
P/E	58.7	46.0	21.5	19.9	18.3
ROE (%)	-395.6	-285.3	418.8	214.8	138.6

Source: Company data, GF Securities (Hong Kong) Brokerage

Evan Lee

SFC CE No. BVI629

evanlee@gfgroup.com.hk

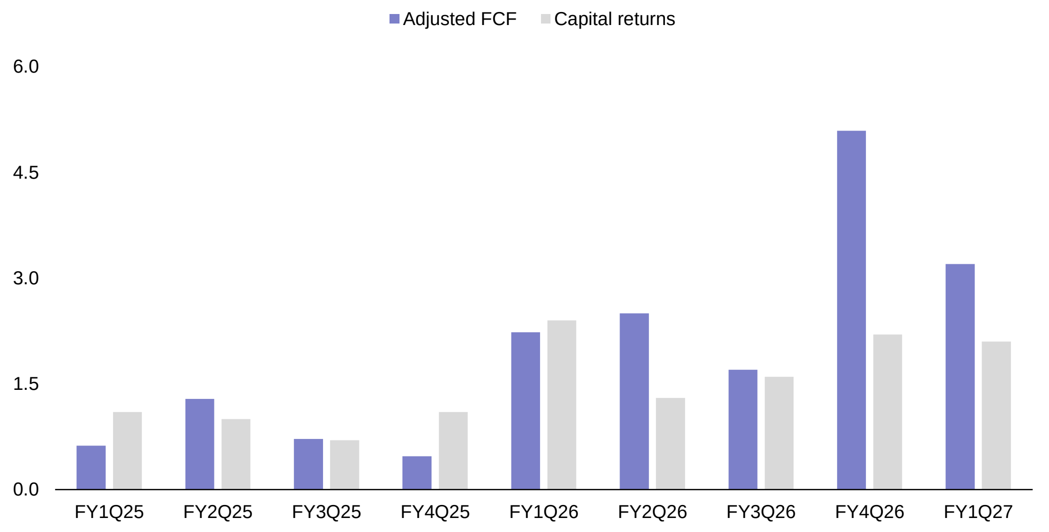
Jeff Pu, CFA

SFC CE No. BNO719

jeffpu@gfgroup.com.hk

Earnings Forecast

Figure 1: Dell's FCF and capital returns (USD bn)



Sources: Company data, GF Securities (Hong Kong) Brokerage

Earnings revision

By factoring in robust Neoclouds AI server outlook, we revise our EPS estimates by +11%/+6% in FY27E/FY28E.

Figure 2: Earnings revision

USD m	FY26	FY27E		FY28E		Change (%)	
		Old	New	Old	New	FY27E	FY28E
Net sales	113,538	188,228	200,652	229,190	263,549	7%	15%
Gross profit	23,159	32,108	34,088	34,633	36,524	6%	5%
Operating profit	9,991	17,211	18,891	19,033	20,124	10%	6%
Pre-tax Income	8,593	15,794	17,474	17,669	18,760	11%	6%
Net profit	7,046	12,951	14,328	14,488	15,383	11%	6%
Diluted EPS ($)	10.29	19.88	21.99	22.41	23.79	11%	6%
Key ratios (%)							
Gross margin	20.4%	17.1%	17.0%	15.1%	13.9%		
Operating margin	8.8%	9.1%	9.4%	8.3%	7.6%		
Pre-tax margin	7.6%	8.4%	8.7%	7.7%	7.1%		
Net profit margin	6.2%	6.9%	7.1%	6.3%	5.8%		

Sources: Company data, GF Securities (Hong Kong) Brokerage

Figure 3: Dell's P&L forecast

(USD m)	FY26	F1Q27	F2Q27E	F3Q27E	F4Q27E	FY27E	F1Q28E	F2Q28E	F3Q28E	F4Q28E	FY28E
Sales	**113,538**	43,842	42,230	56,451	58,128	**200,652**	57,135	68,110	70,294	68,010	**263,549**
COGS	**90,379**	35,895	34,509	47,074	49,086	**166,563**	48,644	58,993	60,625	58,763	**227,025**
Gross profit	**23,159**	7,947	7,722	9,377	9,042	**34,088**	8,491	9,117	9,669	9,247	**36,524**
Opex	**13,168**	3,712	3,695	3,845	3,945	**15,197**	3,850	4,150	4,250	4,150	**16,400**
Operating profit	**9,991**	4,235	4,027	5,532	5,097	**18,891**	4,641	4,967	5,419	5,097	**20,124**
Non-op profit	**-1,398**	-344	-291	-391	-391	**-1,417**	-341	-341	-341	-341	**-1,364**
Pre-tax profit	**8,593**	3,891	3,736	5,141	4,706	**17,474**	4,300	4,626	5,078	4,756	**18,760**
Income tax	**1,547**	701	672	925	847	**3,146**	774	833	914	856	**3,377**
Net Income	**7,046**	3,190	3,063	4,216	3,859	**14,328**	3,526	3,793	4,164	3,900	**15,383**
Diluted EPS ($)	**10.3**	4.9	4.7	6.5	6.0	**22.0**	5.4	5.9	6.5	6.1	**23.8**
Diluted shares	**685**	656	652	650	648	**652**	650	648	646	644	**647**
Margin analysis											
Gross margin	**20.4%**	18.1%	18.3%	16.6%	15.6%	**17.0%**	14.9%	13.4%	13.8%	13.6%	**13.9%**
Operating margin	**8.8%**	9.7%	9.5%	9.8%	8.8%	**9.4%**	8.1%	7.3%	7.7%	7.5%	**7.6%**
Pre-tax margin	**7.6%**	8.9%	8.8%	9.1%	8.1%	**8.7%**	7.5%	6.8%	7.2%	7.0%	**7.1%**
Effective tax rate	**18.0%**	18.0%	18.0%	18.0%	18.0%	**18.0%**	18.0%	18.0%	18.0%	18.0%	**18.0%**
Growth (YoY%)											
Sales	**19%**	88%	42%	109%	74%	**77%**	30%	61%	25%	17%	**31%**
Operating profit	**17%**	154%	76%	121%	44%	**89%**	10%	23%	-2%	0%	**7%**
Net income	**20%**	194%	93%	139%	48%	**103%**	11%	24%	-1%	1%	**7%**
EPS	**26%**	214%	103%	150%	53%	**114%**	12%	25%	-1%	2%	**8%**
Product mix (%)											
ISG	**54%**	66%	68%	77%	79%	**73%**	78%	81%	80%	80%	**80%**
CSG	**45%**	33%	31%	23%	21%	**26%**	22%	19%	19%	20%	**20%**
Others	**2%**	1%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**

Sources: Company data, GF Securities (Hong Kong) Brokerage

Valuation and Recommendation

Maintain Hold with TP of $428

We retain Hold rating for Dell (DELL US) and set our TP at $428, which is based on 18x our FY28E (CY2027) EPS estimate. We adopt P/E methodology as we believe the market will be mainly focused on the company's earnings outlook, and we usually apply P/E method to downstream firms.

Dell's P/E traded at an average of 9.6x since 2022 and broke up to a new range of 10-22x since 1Q24, due to the breakthrough in AI business. Our target price is based on 18x FY28E P/E, which is close to the upper end with this AI cycle, due to strengthened server visibility and improving margin profile.

On relative basis, the peer group trades at an average of 15x-20x now, largely due to re-rating for Hardware companies amid secular Agentic AI trend. Our 18x multiple reflects Dell is capitalizing an expanding AI infrastructure build-up, with improved margin profile and earnings visibility.

Figure 4: Dell's 12-month forward P/E

Sources: Company data, GF Securities (Hong Kong) Brokerage

Risks

1) AI demand slows down; 2) Components supply constraint; 3) Competition.

Balance Sheet

USD mn

	FY25	FY26	FY27E	FY28E	FY29E
Current assets	**36,229**	**57,602**	**100,530**	**132,698**	**151,097**
Cash and cash equivalents	3,633	11,528	18,316	23,759	28,654
Inventory	6,716	10,437	19,235	26,217	29,655
Accounts Receivable	10,298	17,585	31,077	40,819	45,787
Other current assets	15,582	18,052	31,903	41,903	47,002
Non-current assets	**43,517**	**43,684**	**44,014**	**44,627**	**44,840**
Long-term equity investment	7,423	7,552	7,552	7,552	7,552
Fixed assets	6,336	6,676	7,006	7,619	7,832
Other long-term assets	29,758	29,456	29,456	29,456	29,456
Total assets	**79,746**	**101,286**	**144,544**	**177,325**	**195,938**
Current liabilities	**46,527**	**63,269**	**106,302**	**139,410**	**155,739**
Accounts Payable	20,832	33,630	61,978	84,476	95,553
Short-term borrowings	5,204	7,990	6,065	4,682	3,819
Other current liabilities	20,491	21,649	38,259	50,252	56,368
Non-current liabilities	**34,606**	**40,487**	**34,821**	**30,753**	**28,211**
Long-term Debt	19,363	23,513	17,847	13,779	11,237
Other non-current liabilities	15,243	16,974	16,974	16,974	16,974
Total liabilities	**81,133**	**103,756**	**141,123**	**170,163**	**183,951**
Total Equity	**-1,387**	**-2,470**	**3,421**	**7,162**	**11,987**
Share Capital	9,119	9,457	9,457	9,457	9,457
Additional Paid-in Capital	-8,502	-14,533	-14,533	-14,533	-14,533
Retained earnings	-2,099	2,606	8,497	12,238	17,063
Minority interests	95	-	-	-	-
Total Liabilities & Equity	**79,746**	**101,286**	**144,544**	**177,325**	**195,938**

Income Statement

USD mn

	FY25	FY26	FY27E	FY28E	FY29E
Revenue	**95,567**	**113,538**	**200,652**	**263,549**	**295,622**
Cost of sales	73,757	90,379	166,563	227,025	256,793
Gross profit	**21,810**	**23,159**	**34,088**	**36,524**	**38,829**
Operating Expense	13,281	13,168	15,197	16,400	17,000
Operating profit	**8,529**	**9,991**	**18,891**	**20,124**	**21,829**
Interest Income	-	-	-	-	-
Interest Expense	1,376	1,398	1,564	1,564	1,564
Net other Non-op. Income/(Loss)	-	-	147	200	-
Pre-tax profit	**7,153**	**8,593**	**17,474**	**18,760**	**20,265**
Income tax	1,290	1,547	3,146	3,377	3,648
Profit for the year	**5,863**	**7,046**	**14,328**	**15,383**	**16,617**
Minority interest	-	-	-	-	-
Net profit to ord. equity	**5,863**	**7,046**	**14,328**	**15,383**	**16,617**
EPS ($)	**8.1**	**10.3**	**22.0**	**23.8**	**25.9**

Cash Flow Statement

USD mn

	FY25	FY26	FY27E	FY28E	FY29E
Operating cash flow	**4,521**	**11,185**	**25,817**	**26,536**	**25,091**
Net profit (GAAP)	5,863	7,046	14,328	15,383	16,617
Depreciation & amortization	3,123	3,029	2,670	3,387	4,787
Change in working capital	-	-	8,818	7,767	3,688
Others	-4,465	1,110	-	-	-
Investing cash flow	**-2,215**	**-2,055**	**-3,000**	**-4,000**	**-5,000**
Capex	-3,027	-3,369	-3,000	-4,000	-5,000
Change in investment	-230	-129	-	-	-
Others	1,042	1,443	-	-	-
Free cash flow	**2,306**	**9,130**	**22,817**	**22,536**	**20,091**
Financing cash flow	**-5,815**	**-1,464**	**-16,029**	**-17,092**	**-15,197**
Change in Capital	-5,118	-8,129	-8,437	-11,642	-11,792
Net Change in Debt	-1,427	6,936	-7,592	-5,451	-3,405
Others	730	-271	-	-	-
Exchange influence	-179	221	-	-	-
Net increase in cash	**-3,509**	**7,666**	**6,788**	**5,444**	**4,894**

Key Financial Ratios

	FY25	FY26	FY27E	FY28E	FY29E
Growth (%)					
Revenue growth	8.1	18.8	76.7	31.3	12.2
Operating profit growth	8.3	17.1	89.1	6.5	8.5
Net profit growth	8.1	20.2	103.4	7.4	8.0
Profitability (%)					
Gross profit margin	22.8	20.4	17.0	13.9	13.1
Operating Profit Margin	8.9	8.8	9.4	7.6	7.4
Net profit margin	6.1	6.2	7.1	5.8	5.6
Key Ratio (%)					
ROA	7.2	7.8	11.7	9.6	8.9
ROE	-395.6	-285.3	418.8	214.8	138.6
Stability					
Gross debt/equity	-1,771	-1,275	699	258	126
Interest Coverage	6.2	7.1	12.2	13.0	14.0
Current Ratio	0.8	0.9	0.9	1.0	1.0
Quick Ratio	0.6	0.7	0.8	0.8	0.8
Net debt/equity	-1,509	-809	163.6	Net cash	Net cash

Rating definitions Benchmark: Hang Seng Index (Hong Kong)

Company ratings		
	Buy	Stock expected to outperform benchmark by more than 10%
	Hold	Expected stock relative performance ranges between -10% and 10%
	Underperform	Stock expected to underperform benchmark by more than 10%

Sector ratings		
	Positive	Sector expected to outperform benchmark by more than 10%
	Neutral	Expected sector relative performance ranges between -10% and 10%
	Cautious	Sector expected to underperform benchmark by more than 10%

Hong Kong		
	Company	GF Securities (Hong Kong) Brokerage Limited
	Address	27/F, GF Tower, 81 Lockhart Road, Wan Chai, Hong Kong
	Telephone	(852) 37191111
	Email	evanlee@gfgroup.com.hk

Legal Disclaimer

This report has been prepared by GF Securities (Hong Kong) Brokerage Limited (“GF Securities (Hong Kong) Brokerage”). According to the laws, regulations and regulatory requirements in different countries and regions, this report is distributed by GF Securities (Hong Kong) Brokerage with relevant legal and compliant operation qualifications in these countries and regions.

GF Securities (Hong Kong) Brokerage is licensed by the Securities and Futures Commission of Hong Kong (“SFC”) to conduct Type 4 Regulated Activity “Advising on Securities”. It is regulated by the SFC, and is responsible for the distribution of this report in Hong Kong. Information about the qualifications of the research analyst(s) who is(are) the author(s) of this report as licensed by the SFC are disclosed in the section where research analyst names are shown.

The research analyst(s) primarily responsible for the content of this report, in whole or in part, certifies that with respect to the company or relevant securities that the analyst(s) covered in this report: 1) all of the views expressed accurately reflect his or her personal views on the company or relevant securities mentioned herein; and 2) no part of his or her remuneration was, is, or will be, directly or indirectly, in connection with his or her specific recommendations or views expressed in this report.

This report is published solely for information purpose and does not constitute an offer to buy or sell any securities or a solicitation of an offer to buy, or recommendation for investment in, any securities.

The securities mentioned in this report may not be allowed to be sold in certain jurisdictions. No action has been taken to permit the distribution of the research report to any person in any jurisdiction that the circulation or distribution of such research report is unlawful. This report is distributed solely to clients or designated institutions authorized by GF Securities (Hong Kong) Brokerage, and is not distributed publicly. It is distributed to certain clients based on the conclusion that they are able to assess investment risks independently, execute investment decisions independently and assume corresponding risks independently.

This report has been issued and based on information obtained from sources generally available to the public and believed by the research analyst(s) to be reliable but which has not been independently verified. No representation or warranty, either express or implied, is made by GF Securities (Hong Kong) Brokerage as to their accuracy and completeness of the information contained in this report. GF Securities (Hong Kong) Brokerage accepts no liability for all loss arising from the use of the materials presented in this report, unless is excluded by applicable laws or regulations. Please be aware of the fact that investments involve risks and the price of securities may be fluctuated and therefore return may be varied, past results do not guarantee future performance. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. This report is not to be taken in substitution for the exercise of judgment by respective recipients of this report, where necessary, recipients should obtain professional advice before making investment decisions.

GF Securities (Hong Kong) Brokerage may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in the research report. The points of view, opinions and analytical methods adopted in the research report are solely expressed by the analysts but not that of GF Securities (Hong Kong) Brokerage or its affiliates. The information, opinions and forecasts presented in the research report are the current opinions of the analysts as of the date appearing on this material only which may subject to change at any time without notice. The salesperson, dealer or other professionals of GF Securities (Hong Kong) Brokerage may deliver opposite points of view to their clients and the proprietary trading division with respect to market commentary or dealing strategy either in writing or verbally. The proprietary trading division of GF Securities (Hong Kong) Brokerage may have different investment decision which may be contrary to the opinions expressed in the research report. GF Securities (Hong Kong) Brokerage or its affiliates or respective directors, officers, analysts and employees related to research report business may have rights and interests in securities mentioned in the research report. Recipients should be aware of relevant disclosure of interest (if any) when reading this report.

GF Securities (Hong Kong) Brokerage and its affiliates may be seeking or building business relationships with company(ies) mentioned in this report. Therefore, investors should consider the impact on the independence of this report by GF Securities (Hong Kong) Brokerage and its affiliates due to potential conflicts of interests. Investors should not make any investment decisions based solely on the contents of this report. Investors should make their own investment decisions and bear their own risk. No written or verbal commitment of sharing gains or losses from securities investments in any form shall be effective.

This report may contain and/or describe/present factual historical information on prices of Futures contracts (the “information”). Please note that this information is solely for the purpose of forming part of the argument/grounds/evidence in our research methodology/analysis to support our conclusion on our view of the relevant industry/company mentioned. It does not, by any means (express or implied) to be associated with or constituted as SFC Type 5 Regulated Activity (Advising on futures contracts).

Important Notices

GF Securities Co. Ltd and its affiliates may be seeking or building business relationships with companies mentioned in this report. Therefore, investors should consider the impact on the independence of this report by GF Securities Co. Ltd and its affiliates due to potential conflicts of interests. Investors should not make any investment decisions based solely on the contents of this report.

The research analyst(s) primarily responsible for the content of this research report, in whole or in part, certifies that with respect to the company or relevant securities that the analyst(s) covered in this report: (1) all of the views expressed accurately reflect his or her personal views on the company or relevant securities mentioned herein; and (2) no part of his or her remuneration was, is, or will be, directly or indirectly, in connection with his or her specific recommendations or views expressed in this research report.

The remuneration for the production of this report by research staff is determined based on various factors including the quality of research, client review and workload, and it is also affected by factors including GF Securities' overall revenue, part of which is generated from GF Securities' investment banking business.

This report is distributed solely to clients or designated institutions authorized by GF Securities, and is not distributed publicly. It can only be used by the targeted recipients who have the obligation to maintain confidentiality. GF Securities does not view any persons who have received or read this report through other means as its clients.

This report is distributed to a certain client based on the conclusion that this client is deemed to be able to assess investment risks independently, execute investment decisions independently and assume corresponding risks independently.

The contents of this report is for reference only. Information contained or opinions expressed in this report does not constitute an offer or inquiry. Customers should not substitute their independent judgment with this report or make decisions based on this report.

This report is published solely for information purpose and does not constitute an offer to buy or sell any securities or a solicitation of an offer to buy, or recommendation for investment in, any securities. The research report is intended solely for use of the clients of GF Securities. The securities mentioned in the research report may not be allowed to be sold in certain jurisdictions. No action has been taken to permit the distribution of the research reports to any person in any jurisdiction that the circulation or distribution of such research report is unlawful. No representation or warranty, either express or implied, is made by GF Securities as to their accuracy and completeness of the information contained in the research report. GF Securities accepts no liability for all loss arising from the use of the materials presented in the research report, unless is excluded by applicable laws or regulations. Please be aware of the fact that investments involve risks and the price of securities may be fluctuated and therefore return may be varied, past results do not guarantee future performance. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. The report is not to be taken in substitution for the exercise of judgment by respective recipients of the report, where necessary, recipients should obtain professional advice before making investment decisions.

GF Securities may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in the research report. The points of view, opinions and analytical methods adopted in the research report are solely expressed by the analysts but not that of GF Securities or its affiliates. The information, opinions and forecasts presented in the research report are the current opinions of the analysts as of the date appearing on this material only which may subject to change at any time without notice. The salesperson, dealer or other professionals of GF Securities may deliver opposite points of view to their clients and the proprietary trading division with respect to market commentary or dealing strategy either in writing or verbally. The proprietary trading division of GF Securities may have different investment decision which may be contrary to the opinions expressed in the research report. GF Securities or its affiliates or respective directors, officers, analysts and employees related to research report business may have rights and interests in securities mentioned in the research report. Recipients should be aware of relevant disclosure of interest (if any) when reading the report.

Disclosure of Interests

1) The research analyst(s) and his/her associate has not served as an officer of the company(ies) mentioned in this report, and does not have any financial interests in the company(ies) mentioned in this report.

2) GF Securities (Hong Kong) Brokerage and/or its affiliates does not have any financial interests and has not invested in interests aggregate to an amount equal to or more than (i) 1% of the market capitalization; or (ii) 1% of the issued share capital, or issued units, in the company(ies) mentioned in this report.

3) GF Securities (Hong Kong) Brokerage and/or its affiliates does not have any market making activities, and has not employed any individual(s) serving as officer(s) of the company(ies) mentioned in this report.

4) GF Securities (Hong Kong) Brokerage and/or its affiliates does not have any investment banking relationship in Hong Kong with the company(ies) mentioned in this report in the past 12 months.