

SELL

Initiation

TP: Bt 490.00

Downside : 26.9%

19 OCTOBER 2022

Delta Electronics (DELTA TB)

A soft landing

We initiate coverage on DELTA with a SELL rating. We see the stock being in the last leg of its strong earnings cycle and expect growth to fall to single-digit levels in 2023-24F. Against 47x 2023F PE, the stock also looks expensive to us. We value DELTA at Bt490.



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Initiating with a SELL

We initiate coverage on DELTA, the leading global maker of power-management devices for electronic products, with a SELL rating and DCF-based 12-month TP (2023F base year) of Bt490. *First*, we expect its earnings growth to peak this year at 170% before falling to 9/8/7% in 2023-25F. *Second*, we expect cloud-based products, DELTA's key growth driver, to enter a normalized growth cycle after heavy investment during the COVID period over the past three years. *Third*, we believe the global electronics industry has peaked while we see a threat from a global economic slowdown. *Fourth*, we like DELTA's structural growth engine EV business but we expect this loss-making unit's road to profitability to be a long one. *Lastly*, we regard DELTA's valuation as expensive at 47x 2023F PE against its past-10-year average of 20x and past-10-year historical range of 6-140x.

Cloud spending cycle weakening

DELTA has enjoyed the boom cycle of cloud spending and most of its earnings growth during 2020-22F was contributed by this business. Cloud accounted for 70% of its 1H22 EBIT vs. only 30% in 2018, on our estimate. The spike in online activity during the COVID years drove heavy investments in cloud capacity by corporates globally. Looking ahead, given an already heavy spending cycle with DELTA enjoying average cloud sales growth of 36% p.a. in 2020-22F, we estimate only 8-9% p.a. sales growth in 2023-25F for DELTA. Major cloud users, including DELTA's clients, have started to provide a soft guidance (Exhibit 20).

Global slowdown to hit other businesses

We estimate DELTA's 1H22 EBIT breakdown was 70% cloud, 17% telecom infrastructure, and 13% for the non-EVs auto, EVs, industrial electronics, and home appliances industries. DELTA's telecom business has the largest exposure to India and we expect it to offer only single-digit sales growth from the rollout of 5G. For other businesses, the outlook is weakening given the global slowdown prospects and we project only 3.5% p.a. sales growth in 2023-25F from an average of 21% p.a. in 2020-22F.

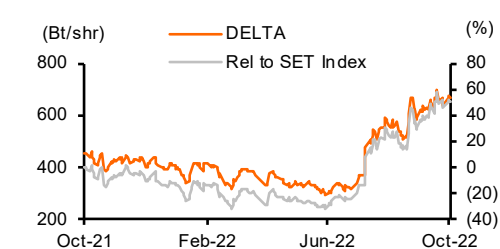
New S-curve EV business still loss-making

Electric vehicles (EVs) are DELTA's S-curve industry with a structural growth outlook. We estimate the EV segment to account for 23% of sales in 2025F. However, this business with its heavy R&D expenses has yet to reach its break-even point and we estimate it posted a USD90m EBIT loss in 2021. We expect the losses to continue, though at a falling rate, into 2025F, despite our sales growth estimates of 15-25% in 2023-25F.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	84,318	114,758	121,494	125,482
Net profit	6,699	16,442	17,931	19,478
Consensus NP	—	13,626	14,912	17,383
Diff frm cons (%)	—	20.7	20.2	12.1
Norm profit	6,075	16,442	17,931	19,478
Prev. Norm profit	—	16,442	17,931	19,478
Chg frm prev (%)	—	0.0	0.0	0.0
Norm EPS (Bt)	4.8	13.1	14.2	15.5
Norm EPS grw (%)	(10.8)	170.7	9.1	8.6
Norm PE (x)	138.9	51.3	47.0	43.3
EV/EBITDA (x)	99.6	43.8	39.1	35.2
P/BV (x)	20.4	15.8	13.1	11.0
Div yield (%)	0.3	0.8	0.9	1.0
ROE (%)	15.4	34.6	30.4	27.6
Net D/E (%)	(9.7)	(14.4)	(34.9)	(48.0)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 19-Oct-22 (Bt)	670.00
Market Cap (US\$ m)	21,878.2
Listed Shares (m shares)	1,247.4
Free Float (%)	22.4
Avg. Daily Turnover (US\$ m)	37.8
12M Price H/L (Bt)	700.00/292.00
Sector	Electronics
Major Shareholder	Delta Group 63.8%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P20

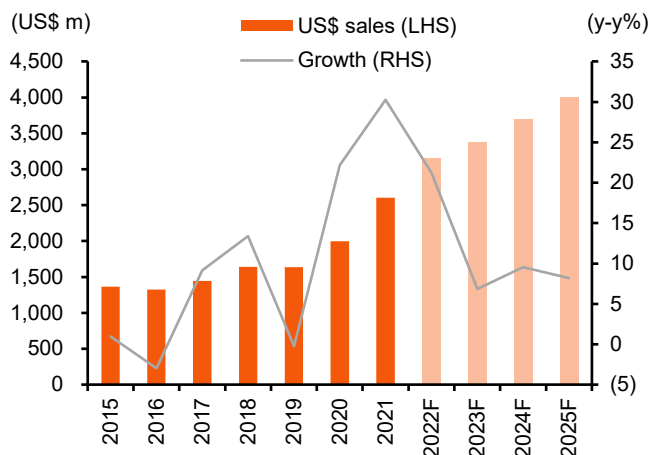
Initiating with a SELL call

We initiate coverage on shares of Delta Electronics (Thailand) Pcl (DELTA) with a SELL rating and a DCF-based 12-month TP, using a 2023F base year, of Bt490/share.

We foresee a single-digit earnings growth outlook

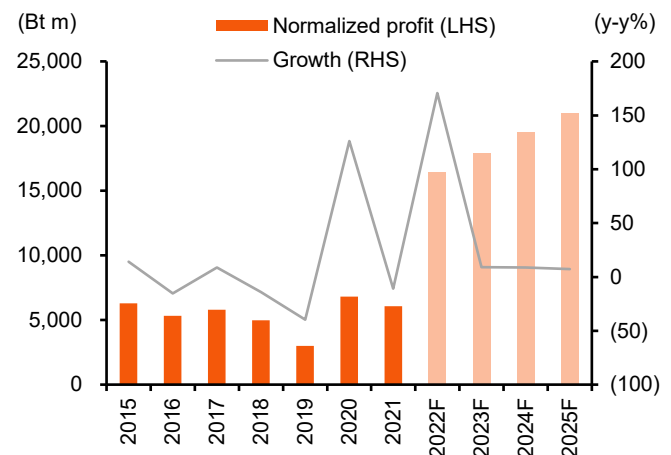
First, we expect DELTA's earnings growth to fall to 9/8/7% in 2023-25F after enjoying a boom period with average growth of 95% p.a. in 2020-22F.

Ex 1: Peaking Sales Growth



Sources: Company data; Thanachart estimates

Ex 2: Thus, A Much Slower Earnings Growth Cycle

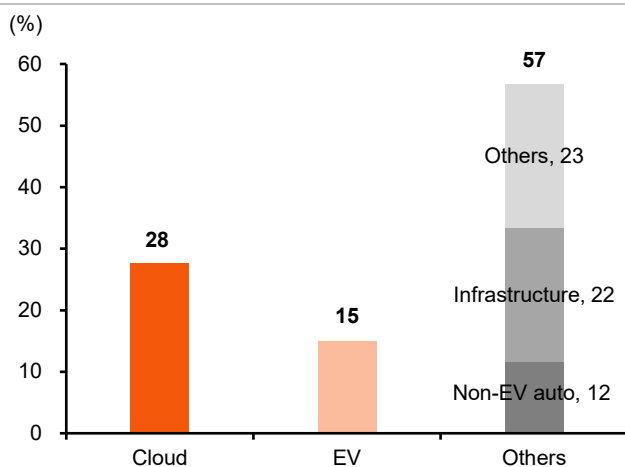


Sources: Company data; Thanachart estimates

Key growth engine to enter a weaker capex cycle period

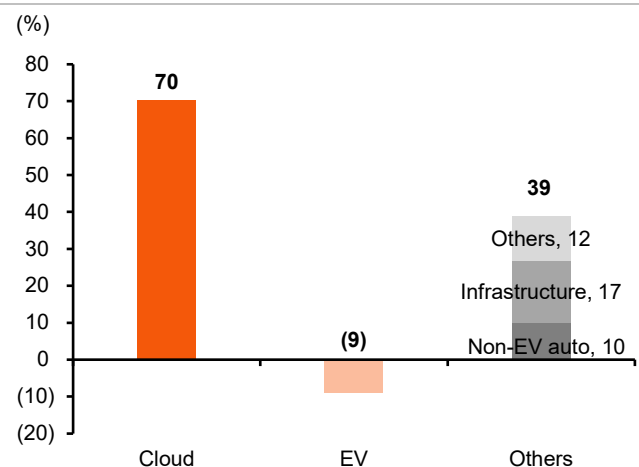
Second, DELTA's key growth engine over the past three years has been cloud-based products and we expect the industry to enter a normalization period from next year onward. Cloud-based products accounted for 28% of DELTA's total sales in 1H22 and the figure grew by 36% p.a. in 2020-22F. We forecast its sales growth to normalize at 8-9% p.a. in 2023-25F after the industry experienced a heavy capex cycle during the COVID years.

Ex 3: Sales Breakdown (1H22)



Sources: Company data; Thanachart estimates

Ex 4: EBIT Breakdown (1H22)

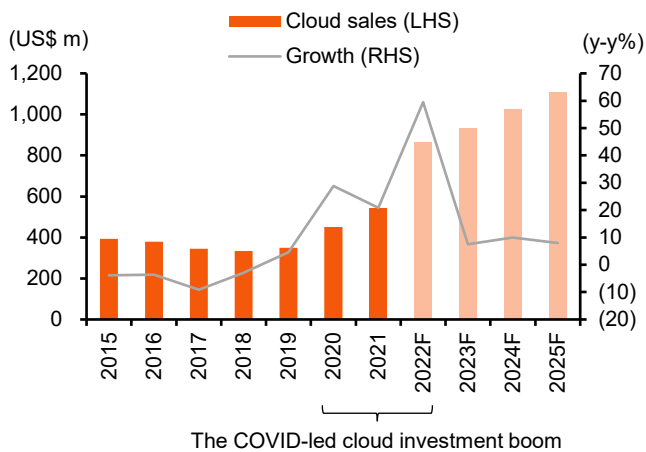


Sources: Company data; Thanachart estimates

Other products will likely be affected by the global slowdown

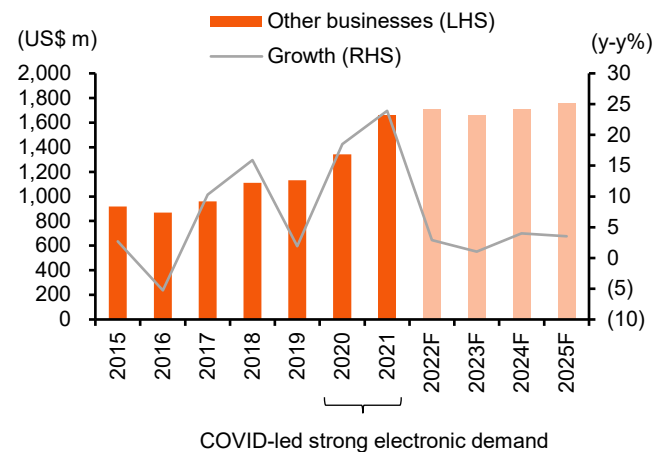
Third, we expect DELTA's products in other industries (57% of total sales) to be hurt by the global slowdown, ie, including automotive, home appliances, industrial products and telecom infrastructure. We estimate DELTA's sales growth for these products to only average 3.5% p.a. in 2023-25F.

Ex 5: Cloud-based Sales Growth



Sources: Company data; Thanachart estimates

Ex 6: Other Products' Sales Growth



Sources: Company data; Thanachart estimates

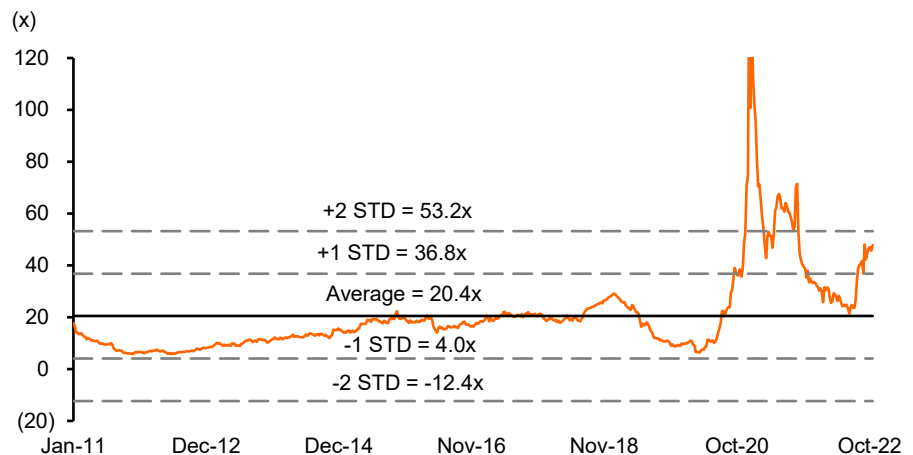
S-curve business still loss-making

Fourth, we like DELTA's S-curve EV-related products business but we expect it to continue to make losses for a few more years. The business contributed 15% of 1H22 sales but a Bt90m loss to the EBIT line, on our estimate.

Expensive valuation in our view at 47x 2023F PE

Lastly, DELTA looks expensive to us at trading at a 47x 2023F PE multiple against its past-10-year historical average of 20x and estimated EPS growth of 9/8/7% in 2023-25F. Our TP of Bt490 implies a 2023F PE multiple of 34x.

Ex 7: PE STD Band



Sources: Bloomberg; Thanachart estimates

Ex 8: 12-month DCF-based Valuation, Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal value
EBITDA	20,975	22,895	24,923	30,199	35,634	41,657	48,932	57,606	68,198	81,503	97,954	—
Free cash flow	21,639	21,606	21,173	25,535	32,071	37,632	46,342	54,610	64,745	77,492	93,375	1,090,104
PV of free cash flow	21,579	17,941	15,805	17,291	19,700	20,963	23,417	25,033	26,922	29,222	30,393	354,817
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	9.7											
Terminal growth (%)	2.0											
Enterprise value - add investments	603,083											
Net debt (2022F)	(7,719)											
Minority interest	6											
Equity value	610,796											
# of shares (m)	1,247											
Target price/share (Bt)	490											

Sources: Company data, Thanachart estimates

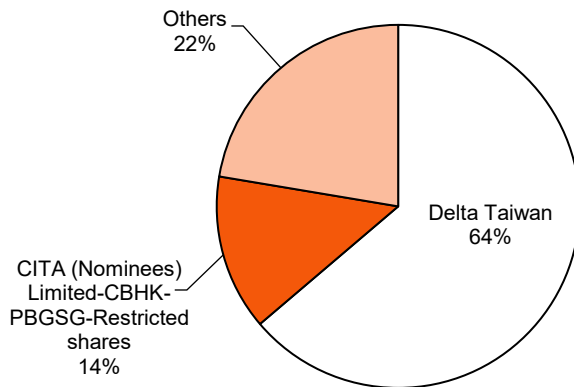
The background

A part of Delta Group, the top global player in the power supply industry

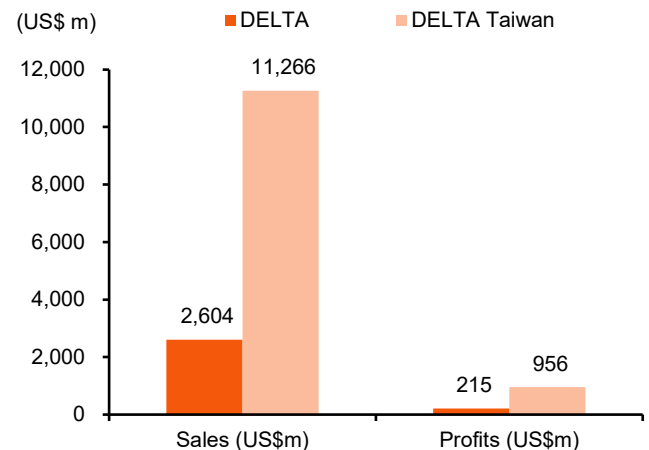
Delta Electronics (Thailand) (DELTA TB) was established in 1988 and listed on the Stock Exchange of Thailand (SET) in 1995. It is a group company that is currently directly/indirectly 63.8%-owned by Delta Electronics Inc (2308 TT) in Taiwan, which we call Delta Taiwan in this report. DELTA free-float shares are at 22.35% of the total. Note that Delta Group as a whole has been a top player in the global electronics industry in the areas of power supply and power management for electronics products.

The two Deltas have different focuses

Both DELTA and Delta Taiwan are producers of power supply and power management products and they have overlapping areas of businesses. That said, there are some differences in their markets and types of products. For instance, Delta Taiwan focuses on standardized power management devices for cloud while DELTA produces mainly customized power control devices for specific cloud clients. As for EV, Delta Taiwan focuses on more complicated power module and traction motor while DELTA produces onboard chargers, traction inverters, and DC-DC converters.

Ex 9: Shareholding Structure (as of 2Q22)

Source: The Stock Exchange Of Thailand

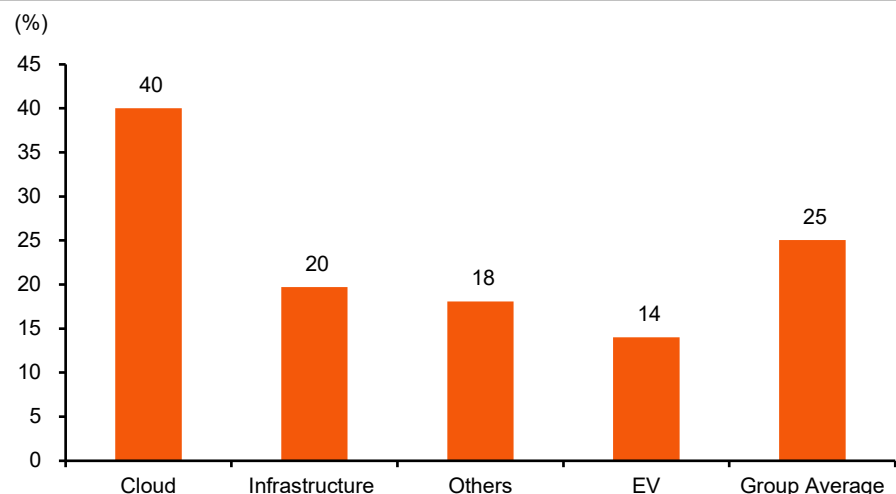
Ex 10: DELTA Vs. Delta Taiwan In 2021

Source: Company data

Makes power-supply and power-management systems

Please see Exhibits 3-4 for DELTA's sales and EBIT breakdown by industry. In order to operate, electronics products require electrical power so they need power-supply and power-management systems. DELTA produces power-supply and power-management systems along with parts for power-supply and power management systems. Most of the products that DELTA produces are power-supply and power-management systems used in electronics products.

As for DELTA, its key products are in the server and cloud, EV, automotive, telecom infrastructure, industrial electronics, and consumer electronics industries. The server and cloud business generates the highest gross margin.

Ex 11: Gross Margin By Different Product In 1H22

Sources: Company data; Thanachart estimate

Cloud is the biggest business with the highest margin

Servers and cloud: This is DELTA’s largest business accounting for 28% of sales and 70% of EBIT in 1H22. It generated the highest gross margin of 40% in 1H22, on our estimate. Despite performing similar functions of power management as in other conventional electronics products, cloud-related products are more complex. DELTA started developing power-converter and power-management systems for private cloud products in around 2010. That was along with the trend of global digitalization when corporates were assigning more importance to data management and usage. It was also at the beginning of the new internet era, e.g., corporates using online work sharing and consumers adopting social media usage such as watching YouTube and doing online shopping. Being a leading global player, DELTA’s customers include mega-cloud users such as Meta (Facebook’s owner), Alphabet (Google), Amazon, and Cisco. DELTA’s products are used in most cloud-related applications, ranging from data storage to data networking and data computation. Nearly 70% of DELTA’s cloud products are customized for each customer.

Ex 12: Cloud-related Products



Source: Company data

Telecom infrastructure is mainly in India

Telecom infrastructure and other infrastructure: Most of DELTA’s telecom infrastructure business is in India where it commands more than a 50% market share. This business accounted for 22% of 1H22 sales and 17% of EBIT. DELTA manufactures power-management products and provides customized solutions for telecom network functions. It also supplies devices for last-mile connectivity.

Ex 13: Telecom And Other Infrastructure Products



Source: Company data

Exposure to many other industries

Automotive, industrial, and consumer electronics: These are conventional industries in which DELTA has had a presence for a long time. Its products are in the automotive, home appliance, industrial machinery, and consumer electronics industries, etc. In the auto sector, DELTA produces fans used for the functions of cooling, ventilating, and circulating. Examples of products are seat ventilation, HVAC, infotainment, cluster and battery cooling.

Ex 14: Auto, Industrial And Consumer Electronics Products

Fans & Thermal Management (mainly for cars)



Ventilation Fans



Portable Device Fans and Blowers



Automotive, Server, Storage, Industrial and Consumer Fans and Blowers



Electronically Commutated Fans



Cabinet Thermal Solution Products
Air Conditioners and Heat Exchangers



Thermal Management Products

Industrial Automation



Machine Vision Systems



Smart Sensors



SCARA Robots



Robot Workstations



Rotary Optical Encoders



Pressure Sensors



Articulated Robots



Production AOI
Customized Applications



Temperature Controllers



Power Meters



Production Automation
Customized Applications

Power & System

Power Shelf Solution



5G Radio



Industrial Power Supplies



NAS, Enterprise Server



DC-DC Converter



Lighting Power



Medical Power Supplies



Source: Company data

EV is DELTA's S-curve business area

Electric vehicles (EVs): DELTA started to gain exposure to the EV industry in 2015 and this is its S-curve business for the current era. EVs accounted for 15% of sales in 1H22 but we estimate they generated an EBIT loss of around USD90m in the same period. DELTA makes DC-DC converters, battery junction boxes and on-board chargers for EV car makers, mostly US brands at this stage. DELTA sells its products both directly to brand owners and to first-tier suppliers.

Ex 15: EV Products



Source: Company data

Soft landing for the cloud cycle

We expect cloud spending to slow down after a heavy capex cycle

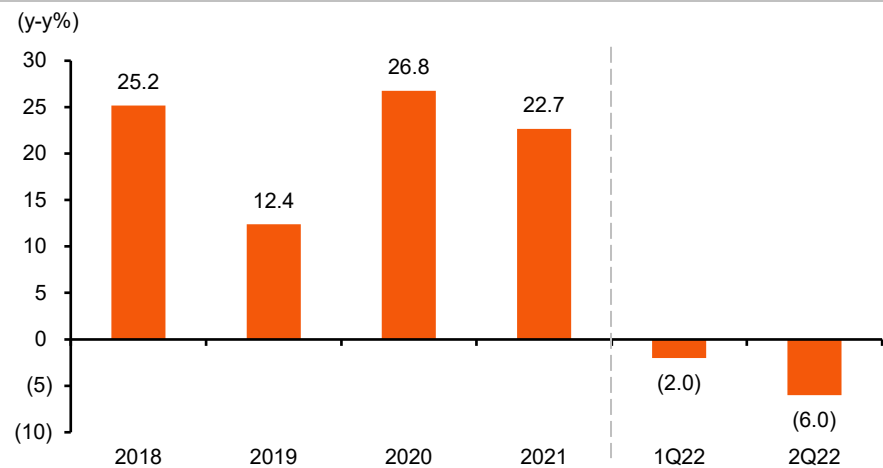
DELTA's strong earnings growth over the past three years was contributed to mostly by cloud products. The booming electronics industry and a jump in online activities of all kinds during the COVID years accelerated the capex cycle for corporates in cloud investment, including for conventional servers. As shown in Exhibit 5, DELTA's cloud product sales have been growing by 36% p.a. in 2020-22F. And since it is the highest gross-margin product, cloud has also been the biggest contributor to DELTA's overall robust average earnings growth of 95% in 2020-22F.

Looking ahead, we estimate DELTA's cloud product sales growth to slow down to 8-9% p.a. in 2023-25F despite our expectation for the global digitalization trend to continue.

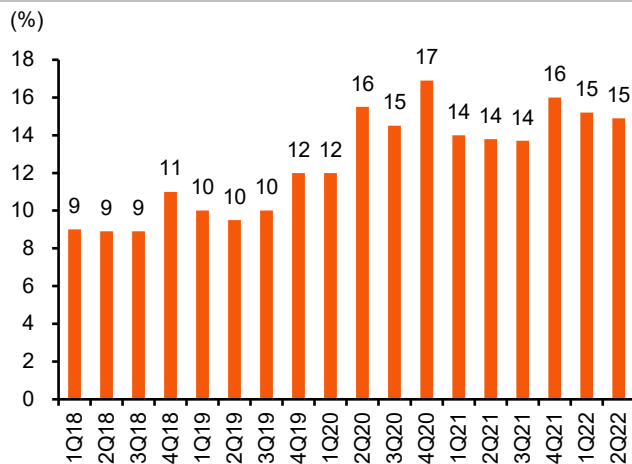
First, we expect the cloud capex cycle to decelerate after the heavy investment period over the past three years as corporates wait for machine utilization to catch up. Exhibit 21 shows cloud capex spending by global corporates.

Country re-openings have slowed down the growth of online activity

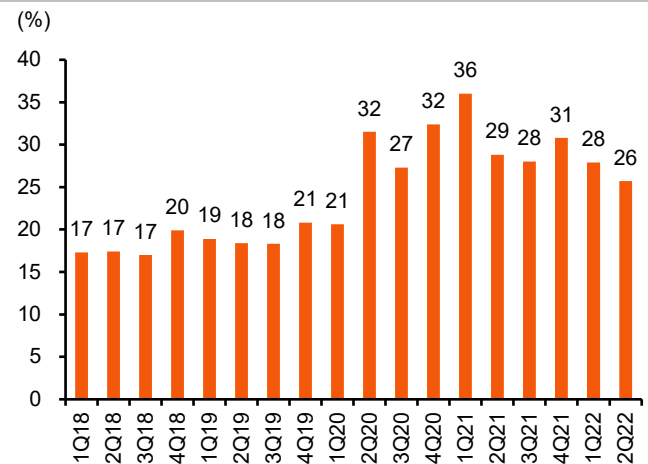
Second, country re-openings around the world have seen people going back to work, kids going back to school, people going out to eat again, and a return to shopping at stores. We believe this will reduce the growth rate of online activities that could lead to slower expansion of capex spending on cloud. This will likely be the case especially since capex spending has been heavy for the past three years. Exhibit 16 shows falling global E-commerce sales. Softness has been seen in major markets such as the US and the UK. Exhibit19 shows continuous falls in the revenues growth of mega cloud users such as for Facebook, Twitter, and Snap because people are spending less time on social media now that countries have reopened.

Ex 16: Global E-Commerce Sales Have Fallen

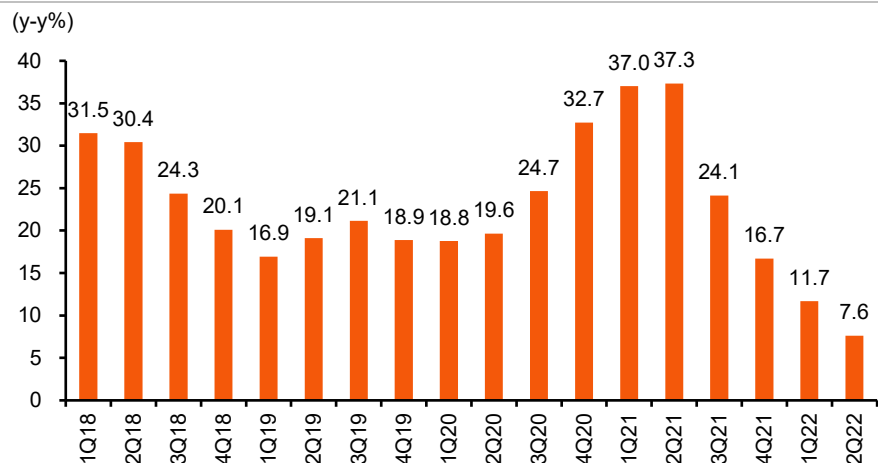
Sources: salesforce; Thanachart compilation

Ex 17: E-Commerce To Retail Sales % Falls In The US...

Source: Census.gov

Ex 18: ...And In The UK

Source: Ong.gov.uk

Ex 19: Slowdown In Revenue Growth Of Global Mega-Cloud Users

Sources: Company data; Thanachart compilation

Note: *Major cloud users include Meta (Facebook), Alphabet (Google), Amazon, Cisco, Snap, Twitter, Pinterest

Global slowdown set to have an impact

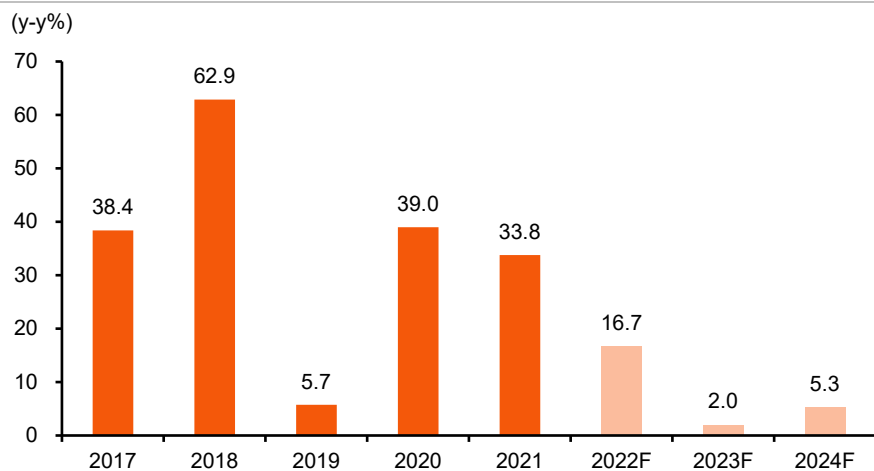
Third, we expect the global slowdown caused by sharp hikes in the Fed funds rate to likely have a clear impact on the global interest rate trend and lead to weaker capex spending by corporates around the world. We have seen many big corporates giving soft financial guidance. Exhibit 20 shows the soft guidance of mega-cloud user companies while Exhibit 21 provides the Bloomberg consensus' estimate for these companies' capex spending to grow by an average 4% p.a. in 2023-24F vs. 30% in 2022-22F. Note that cloud has been one of the main contributors to these companies' capex.

Ex 20: Global Mega Cloud Users' Unexciting Guidance

Revenue growth (y-y%)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22F
Snap	66.4	116.2	57.3	42.4	38.1	13.1	No guidance due to high uncertainty
Meta (Facebook)	47.6	55.6	35.1	19.9	6.6	(0.9)	(5.0)
Google	34.4	61.6	41.0	32.4	23.0	12.6	Flat
Amazon	43.8	27.2	15.3	9.4	7.3	7.2	Mid-double digits
Twitter	28.3	74.2	37.1	21.6	15.9	(1.2)	No guidance
Pinterest	78.4	125.0	43.0	20.0	18.5	8.6	No guidance
Cisco	(9.3)	(0.4)	6.8	8.0	8.1	6.4	Flat

Sources: Company data, Thanachart compilation

Ex 21: Capex Spending By Major Global Cloud Users



Sources: Bloomberg, Thanachart compilation

Note: *Major cloud users include Meta (Facebook), Alphabet (Google), Amazon, Cisco, Snap, Twitter, and Pinterest

** Estimated data is from the Bloomberg consensus

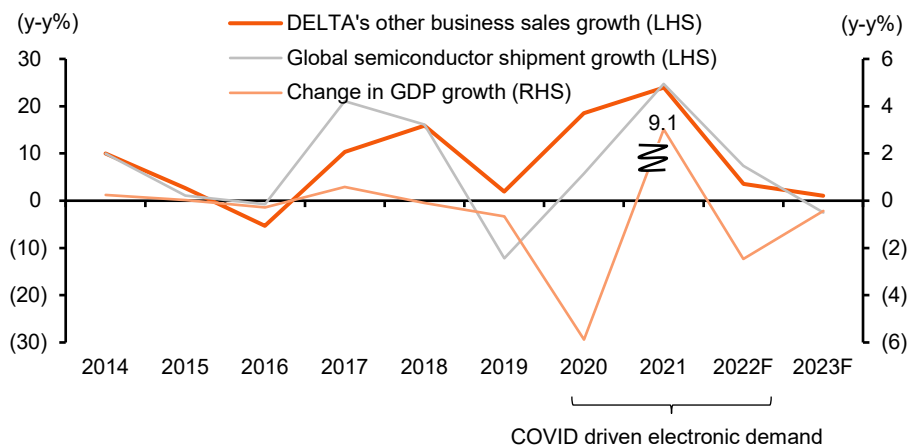
The soft landing – global slowdown

Global slowdown likely to hurt sales of other products

We expect the global slowdown to hit DELTA's exposure to other industries such as auto, industrial, telecom infrastructure, home appliances and other consumer electronics. Leaving aside cloud and EV, sales from other industries accounted for 57% of the total and 39% of EBIT in 1H22. We expect sales from products in these industries to grow by only 4% in 2022F and then average 3.5% p.a. in 2023-25F. That compares to 21% p.a. growth in 2020-21.

We can track the growth in these areas of DELTA's business by looking at global semiconductor shipments. Shipments grew by 6/25% p.a. in 2020-21 and the consensus expects them to grow by 7% in 2022F before falling by 2.5% in 2023F. Exhibit 22 shows that global semiconductor shipments have a high correlation with global GDP growth.

Ex 22: Global Slowdown Correlation With DELTA



Sources: Company data; IMF; Semiconductor.org; Bloomberg

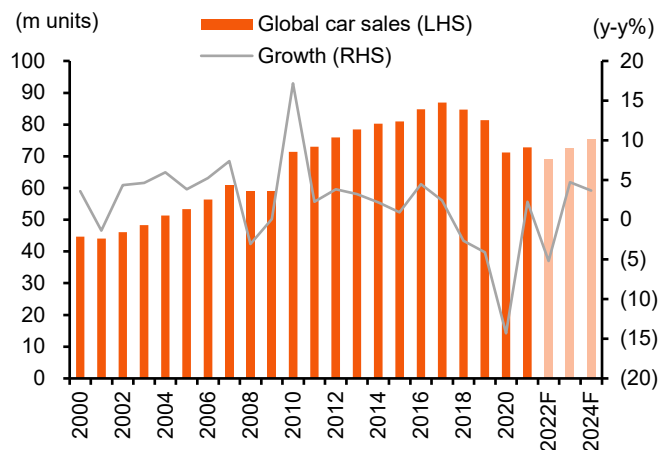
Note: DELTA's other businesses consist of non-EV auto, home appliances, industrial, telecom infrastructure and consumer electronics

We discuss the outlook for these industries below:

Hit by several waves of negatives and now faces another

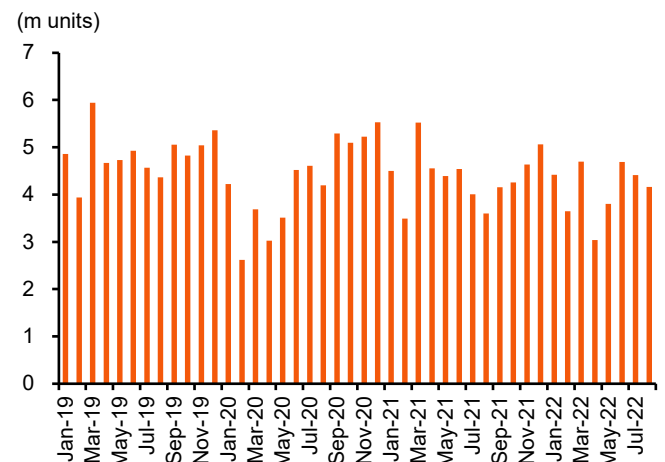
Auto: The global auto industry has been hit by several waves of negatives over the past five years. It experienced weak demand during the trade war and the introduction of new emission regulations in Europe in 2018-19. Then the COVID crisis hit in 2020. A turnaround started in early 2021 but full-year growth slowed to only 3% due to the chip shortage situation. And now in 2022 while the chip shortage situation has eased, demand faces downside risk due to rising interest rates and the global slowdown impact. Global car sales fell 6% y-y in 8M22. According to the Center for Automotive Research, global car sales are expected to fall by 5% this year before recovering by 4/3% in 2023-24.

Ex 23: Global Car Sales Forecasts



Sources: Bloomberg; Center for Automotive Research

Ex 24: Monthly Global Car Sales



Source: Bloomberg

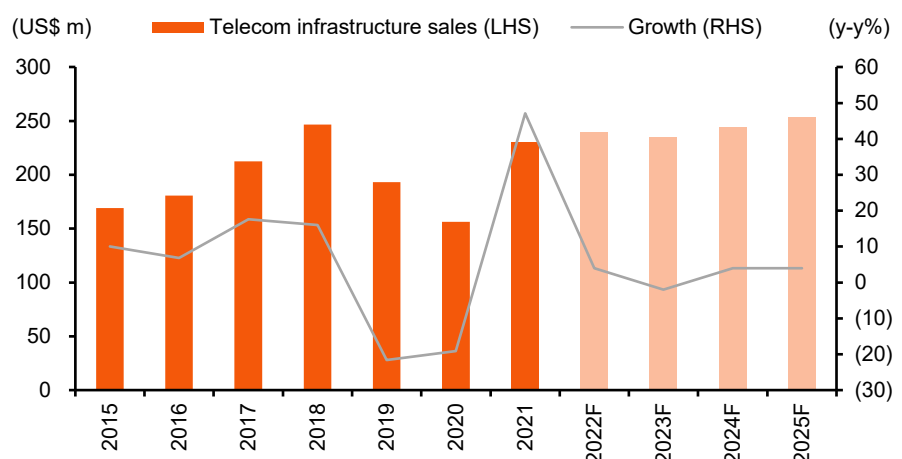
DELTA sees a weak outlook for industrial electronics and home appliances

Industrial electronics and home appliances: There is no official data for these two electronics segments but DELTA foresees weak prospects. Demand for industrial electronics and home appliances normally moves along with the global economy and we therefore expect it to soften.

Organic growth for telecom investment in India

Telecom infrastructure: This business is mainly in India and many Indian telecom operators are DELTA's customers. The business hasn't been running smoothly over the past few years due to hiccups in India's 5G rollout plan that are associated with the government's infrastructure plan. Although this is not directly linked to the global slowdown while 5G is currently available in only eight high-income cities which implies substantial room for future investment, DELTA doesn't expect strong growth from this segment over the next few years due to India's gradual spending plan.

Ex 25: DELTA's Telecom Infrastructure Sales Growth



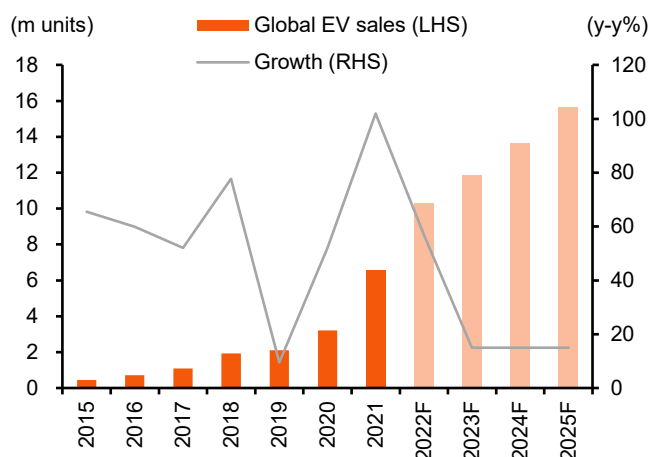
Sources: Company data; Thanachart estimates

S-curve EV business still making losses

EV business remains in a structural growth trend

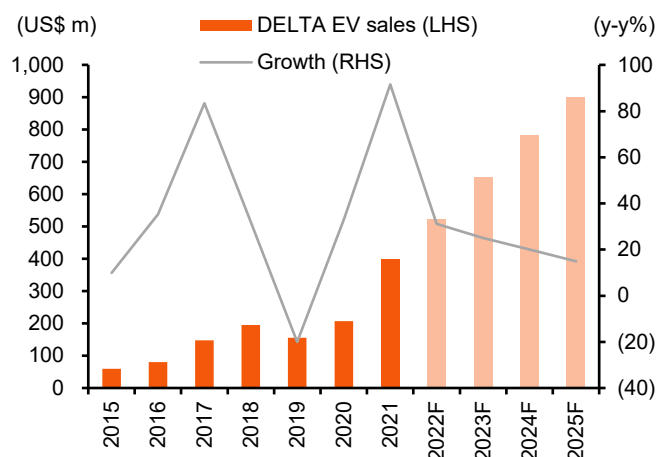
EV-related products are DELTA's S-curve business for the current era. EV products accounted for 15% of the company's total sales in 1H22. We see EV products having the strongest growth potential compared to other industries where DELTA has exposure. We estimate DELTA's EV sales to grow by 15-25% p.a. in 2023-25F. Our assumption is based on an EV penetration of 34% in 2027F, vs. 13% in 2022F, according to the auto specialist S&P Global Platts Analytics.

Ex 26: Global EV Sales



Source: Bloomberg, S&P Global Platts Analytics, Thanachart compilation

Ex 27: DELTA's EV-related Product Sales

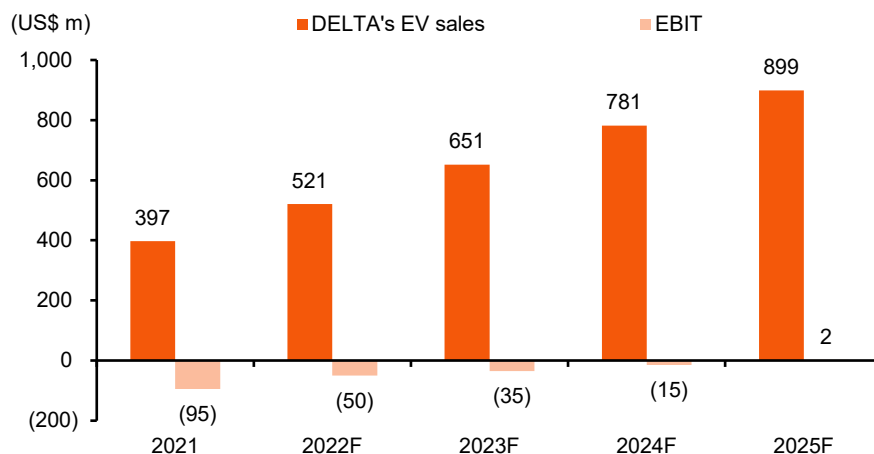


Sources: Company data; Thanachart estimates

But the business is still making losses

Despite starting up in 2015, DELTA's EV business is still making losses. This has been because of the need for heavy R&D expenses and capex while economies of scale remain low. In 2021, DELTA's EV sales came to USD397m and we estimate around a USD90m loss at the EBIT level. DELTA expects its EV business to break even at revenue of nearly USD1bn which we expect in 2025F.

Ex 28: We Expect The EV Business To Break Even In 2025F



Sources: Company data; Thanachart estimates

Expensive valuation, in our view

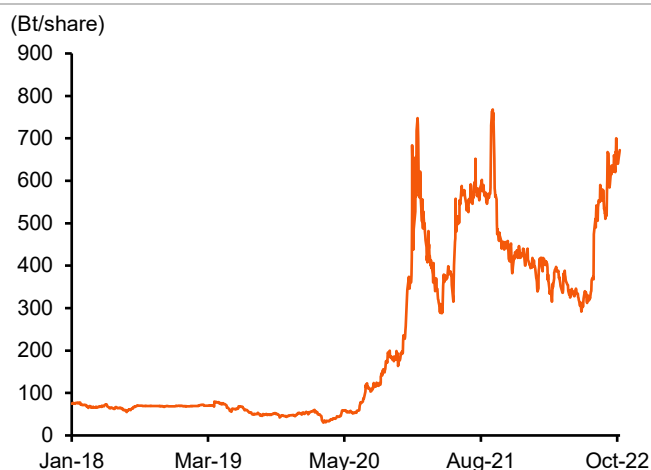
Share price has doubled from early 2020

DELTA's share price has risen by 1,158% from the start of 2020 and is up by 67% YTD. This follows its average earnings growth of 58% in 2020-21 and 110% y-y in 1H22. We estimate 170% earnings growth in 2022F.

Expensive, in our view, at 47x PE in 2023F, before falling to 37x in 2024F

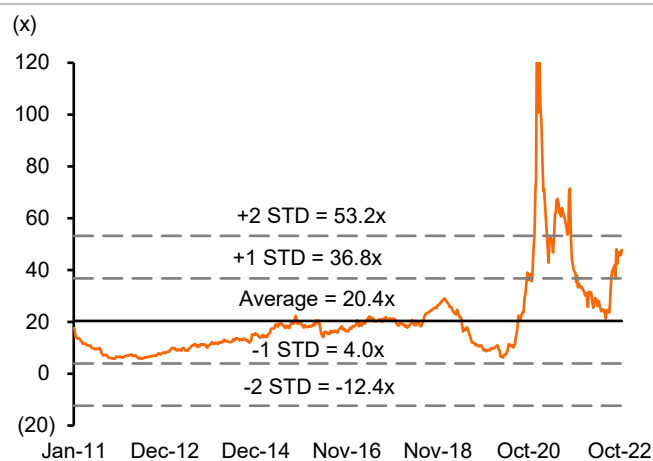
At this point, the stock is trading on 47x PE in 2023F before falling to 43x in 2024F, which looks expensive to us given 9/8/7% EPS growth in 2023-25F. This valuation is a re-rating from the 10-year average of 20x. And we believe the re-rating has been due to a mixture of DELTA's growing exposure to EVs, the surge in cloud spending, the electronics industry boom, and a big earnings jump during the COVID years. Looking ahead to a softer cloud spending cycle and the global economic slowdown, we expect only a single-digit earnings growth outlook for DELTA, and therefore, the risk of a valuation de-rating. Our DCF-based 12-month TP, using a 2023F base year, of Bt490 implies a 2023F PE multiple of 34x.

Ex 29: Already A Big Jump In DELTA's Stock Price



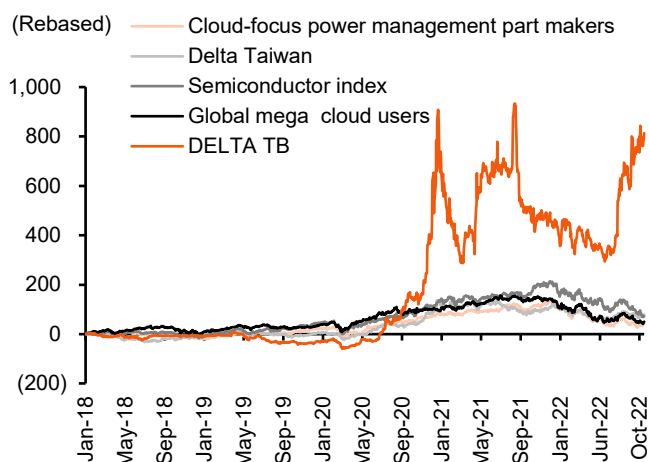
Source: Bloomberg

Ex 30: And A Big PE Re-rating (PE STD Band)



Sources: Bloomberg; Thanachart estimates

Ex 31: DELTA Has Outperformed Peers

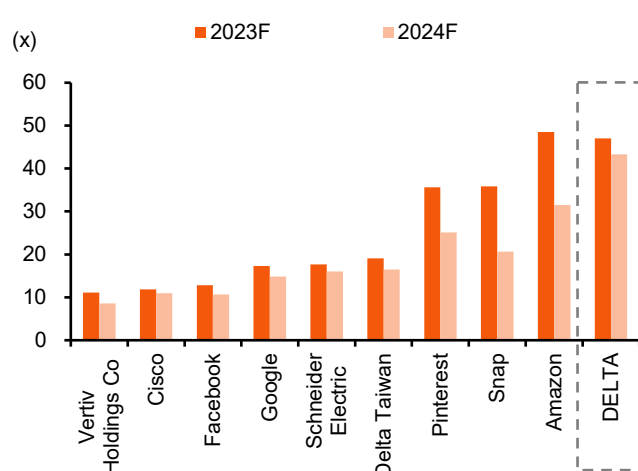


Source: Bloomberg

Note: *Cloud-focused power management parts makers include Vertiv and Schneider.

*Global mega-cloud users include: Facebook, Google, Amazon, Snap, Pinterest, Cisco

Ex 32: 2023-24F PE Comparison



Sources: Bloomberg, Thanachart estimates (for DELTA)

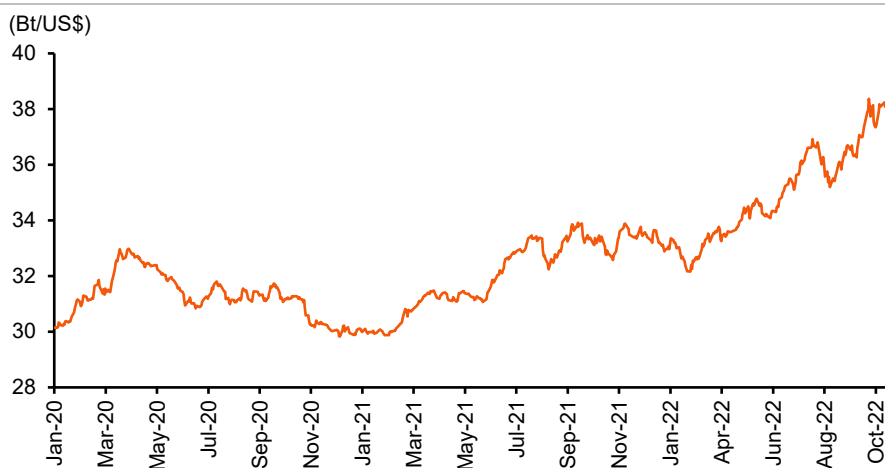
Likely strong 2H22F

Likely robust near-term outlook

Despite our SELL rating, we note that DELTA will likely enjoy strong near-term earnings in 2H22F (+228% y-y and 67% h-h in 2H22F) due to: 1) the easing global chip shortage enabling DELTA to access more production materials, and 2) the weak Thai baht pushing up gross margin.

The said, we expect only 9/8/7% EPS growth in 2023-25F as we expect a growth slowdown because of the reasons mentioned earlier.

Ex 33: Weak Thai Baht Against The US Dollar



Source: Bloomberg

Valuation Comparison

Ex 34: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div. yield —	
			22F	23F	22F	23F	22F	23F	22F	23F	22F	23F
			(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)
Schneider Electric SE	SU FP	France	16.2	6.7	19.6	17.6	2.7	2.5	12.8	12.2	2.4	2.6
Delta Electronics Inc	2308 TT	Taiwan	17.7	15.7	22.1	19.1	4.1	3.6	12.1	10.6	2.4	2.7
Vertiv Holdings	VRT US	US	(23.8)	79.2	19.8	11.1	3.0	2.6	13.4	9.1	0.1	0.1
Snap	SNAP US	US	(97.9)	na	na	35.8	5.5	5.0	43.5	20.1	0.0	0.0
Meta Platforms	META US	US	(18.3)	13.7	13.7	12.8	2.7	2.2	6.3	5.7	0.0	0.0
Alphabet	GOOGL US	US	(4.9)	15.3	19.6	17.3	4.9	4.1	10.6	9.6	0.0	0.0
Amazon.com	AMZN US	US	(62.9)	144.2	na	48.5	7.9	6.3	17.8	13.7	0.0	0.0
Pinterest	PINS US	US	(56.6)	33.5	47.5	35.6	4.7	4.2	32.5	25.1	0.0	10.7
Cisco Systems	CSCO US	US	4.9	8.2	11.9	10.9	3.9	3.3	8.3	7.9	3.7	3.8
Delta Electronics	DELTA TB*	Thailand	170.7	9.1	51.3	47.0	15.8	13.1	43.8	39.1	0.8	0.9
Hana Microelectronics	HANA TB*	Thailand	0.8	3.9	12.4	11.9	1.2	1.2	7.0	6.4	5.4	5.5
KCE Electronics	KCE TB*	Thailand	5.4	9.0	21.3	19.5	3.4	3.3	13.6	12.5	3.3	3.6
Average			(4.1)	30.8	23.9	23.9	5.0	4.3	18.5	14.3	1.5	2.5

Source: Bloomberg

Note: *Thanachart estimates, using Thanachart normalized EPS

Based on 19-Oct-2022 closing prices

Appendix

Production capacity: DELTA currently has seven factories. The company's average utilization rate as of 1H22 was over 90%. DELTA is now adding extra machinery at available space at two factories to produce more cloud and EV products given their strong orders. Next year, DELTA plans to commence operations at the new factory focusing on cloud and EV products. The new machinery and the new building should help DELTA achieve above mid-teen sales growth for the new few years.

According to DELTA, it believes it can operate the new capacity at high utilization levels as it expects continued strong orders from clients.

FX impact: DELTA is a net-exporter company and it has factories and some sales offices in countries abroad. Around 80% of DELTA's revenues is in US dollars while more than 60% of its expenses is in US dollars with over 20% in Thai baht. Therefore, DELTA doesn't have a high level of natural hedging. Our sensitivity analysis suggests that each 1% movement in baht against the US dollar would impact DELTA's earnings by less than 2%

Ex 35: Our Baht Assumptions

	Bt/US\$
2020	31.3
2021	32.0
2022F	35.5
2023F	35.0
2024F	33.0

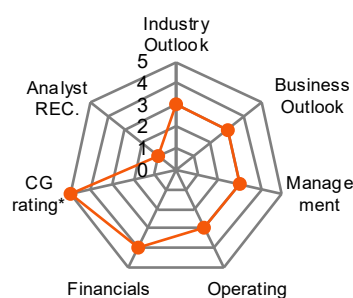
Sources: BoT, Thanachart estimates

COMPANY DESCRIPTION

Delta Electronics (Thailand) Pcl designs and manufactures electronic equipment. The company makes power systems for datacenters, telecoms, medical equipment, industrial automation and cars. DELTA also produces fans, electromagnetic interference filters, and solenoids. DELTA has manufacturing bases in three countries, Thailand, India, and Slovakia, and has more than 10,000 employees worldwide. The company also has its own R&D facilities in Thailand, Germany, Switzerland, Romania, China, and India. Delta Group is the world's largest power supply producer.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Well-diversified groups of customers in each industry.
- Well-established company with a net cash position.
- Strong in-house R&D capabilities.

O — Opportunity

- Growing economies of developing countries where DELTA has regional business exposure.
- M&A opportunities given DELTA's substantial cash on hand.
- Increasing popularity of electric cars would benefit DELTA's automotive business.

W — Weakness

- Regional business depends heavily on uncontrollable factors such as industry and economic conditions.
- DELTA's expertise is still limited to power supply systems.
- Interference and controlling power from parent company

T — Threat

- Industry and political uncertainties in developing countries and markets (i.e. India, Brazil, ASEAN).
- Increasing competition from the public cloud segment.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	491.75	490.00	0%
Net profit 22F (Bt m)	13,626	16,442	21%
Net profit 23F (Bt m)	14,912	17,931	20%
Consensus REC	BUY: 4	HOLD: 5	SELL: 4

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022-23F earnings are higher than the Bloomberg consensus', which we attribute to us having a more bullish view on the near-term global cloud spending outlook.
- However, our TP is similar to the Street's which we attribute to us having a more bearish view on the long-term outlook of global semiconductor industry.

Sources: Bloomberg consensus, Thanachart estimates

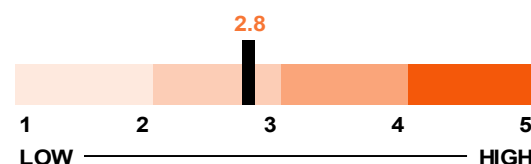
RISKS TO OUR INVESTMENT CASE

- Faster-than-expected adoption of electric vehicles represents the key upside risk to our earnings forecasts.
- Stronger-than-expected demand for cloud is another upside rise to our numbers
- A weaker-than-expected baht against the US dollar also presents an upside risk to our numbers.

Source: Thanachart

DELTA is among the world's largest manufacturers of power supply and power management products. Its factories release some greenhouse gases and it has a long-term goal to reduce such emissions. However, our ESG score for DELTA is 2.8, which is moderate as its overall ESG implementation plans are not yet clear.

Thanachart ESG Rating



	SETTHSI Index	THSI Index	DJSI Index	MSCI (CCC-AAA)	Arabesque S-Ray (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
DELTA	-	YES	YES	AA	65.24	-	74.22	-	5.0

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, Arabesque S-Ray®, Refinitiv ESG Information, S&P Global Market Intelligence, Moody's ESG Solutions, Thai IOD (CG rating)

Note: Please see third party on "term of use" in the following back page.

Factors

Our Comments

ENVIRONMENT

- Environmental Policies & Guidelines
- Energy Management
- Carbon Management
- Water Management
- Waste Management

- DELTA is a global manufacturer of power-supply and power-management products with seven factories in operation. Its factories release certain amounts of greenhouse gas (GHC) and other pollutants. DELTA has a long-term target for its emissions. Against its base year in 2020, DELTA plans to reduce GHG emissions by 35% in 2025. To achieve this, its plans to increase so-called green revenues by 30% by that year. However, the company has yet to provide clear implementation plans to achieve the goals.
- DELTA newly built factory has begun to be more environmentally focused, e.g., it has reduced water usage by 45% vs. the level at existing factories.
- DELTA has received some awards in ESG areas, e.g., the Bronze Class Sustainability Award 2022 by S&P Global.

SOCIAL

- Human Rights
- Staff Management
- Health & Safety
- Product Safety & Quality
- Social Responsibility

- DELTA provides various employee development programs, e.g., sending workers to train at factories abroad. DELTA also occasionally gets its senior management to provide their knowledge and insights to younger employees.
- The company also recognizes employees' loyalty by providing awards to those who have worked at DELTA for many years.
- DELTA has been active in providing support, such as donations and other help, for those in need. Recently, the company provided more than 50 tonnes of used carbon box material, including field hospital beds, for COVID victims.

GOVERNANCE & SUSTAINABILITY

- Board
- Ethics & Transparency
- Business Sustainability
- Risk Management
- Innovation

- DELTA has a nine-member board of directors (BOD), which is similar to other businesses of a similar scale. Of the nine members, four are independent directors. There is one female board member.
- DELTA has highly diversified end-products of EV and non-EV cars, cloud-related products, telecom infrastructure and various industrial and consumer-based electronic products.
- DELTA has been active in developing automation to reduce its workforce.

Sources: Company data, Thanachart

INCOME STATEMENT

*We expect sales growth
to slow down in 2023F
after three strong years...*

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	63,208	84,318	114,758	121,494	125,482
Cost of sales	48,089	66,960	85,309	89,246	90,223
Gross profit	15,119	17,358	29,449	32,249	35,259
% gross margin	23.9%	20.6%	25.7%	26.5%	28.1%
Selling & administration expenses	8,762	11,435	13,265	14,609	16,131
Operating profit	6,356	5,923	16,184	17,639	19,128
% operating margin	10.1%	7.0%	14.1%	14.5%	15.2%
Depreciation & amortization	2,206	2,508	2,890	3,336	3,767
EBITDA	8,563	8,431	19,074	20,975	22,895
% EBITDA margin	13.5%	10.0%	16.6%	17.3%	18.2%
Non-operating income	619	496	594	646	725
Non-operating expenses	(68)	(239)	(50)	(50)	(50)
Interest expense	(1)	(4)	(16)	(10)	(5)
Pre-tax profit	6,906	6,177	16,712	18,225	19,798
Income tax	208	98	264	288	313
After-tax profit	6,698	6,079	16,448	17,937	19,485
% net margin	10.6%	7.2%	14.3%	14.8%	15.5%
Shares in affiliates' Earnings	61	0	0	0	0
Minority interests	50	(4)	(6)	(6)	(6)
Extraordinary items	293	624	0	0	0
NET PROFIT	7,102	6,699	16,442	17,931	19,478
Normalized profit	6,809	6,075	16,442	17,931	19,478
EPS (Bt)	5.6	5.3	13.1	14.2	15.5
Normalized EPS (Bt)	5.4	4.8	13.1	14.2	15.5

...and profit growth

BALANCE SHEET

*Strong balance sheet
position*

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	42,452	48,764	65,678	74,497	85,515
Cash & cash equivalent	14,236	6,604	10,000	23,000	37,000
Account receivables	13,997	20,593	28,028	26,629	25,784
Inventories	12,655	19,581	24,946	22,006	19,775
Others	1,563	1,986	2,703	2,862	2,956
Investments & loans	0	0	0	0	0
Net fixed assets	12,724	18,583	20,994	22,909	24,091
Other assets	2,043	1,991	1,991	1,953	1,953
Total assets	57,218	69,338	88,663	99,359	111,560
LIABILITIES:					
Current liabilities:	17,170	24,736	31,095	31,194	31,518
Account payables	16,181	22,049	28,091	29,388	29,710
Bank overdraft & ST loans	76	1,692	1,482	303	243
Current LT debt	0	0	0	0	0
Others current liabilities	913	994	1,521	1,503	1,565
Total LT debt	421	913	799	163	131
Others LT liabilities	2,020	2,286	3,263	3,434	3,536
Total liabilities	19,611	27,934	35,157	34,791	35,184
Minority interest	(4)	0	6	12	19
Preferred shares	0	0	0	0	0
Paid-up capital	1,247	1,247	1,259	1,259	1,259
Share premium	1,492	1,492	1,492	1,492	1,492
Warrants	0	0	0	0	0
Surplus	(4,470)	(3,237)	(3,237)	(3,237)	(3,237)
Retained earnings	39,342	41,902	53,986	65,042	76,844
Shareholders' equity	37,612	41,404	53,499	64,556	76,357
Liabilities & equity	57,218	69,338	88,663	99,359	111,560

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

Capex needed for expansion but still strong cash flow position

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	6,906	6,177	16,712	18,225	19,798
Tax paid	(70)	(162)	(133)	(319)	(282)
Depreciation & amortization	2,206	2,508	2,890	3,336	3,767
Chg In working capital	(1,878)	(7,653)	(6,758)	5,636	3,398
Chg In other CA & CL / minorities	10	(274)	(321)	(146)	(63)
Cash flow from operations	7,175	595	12,390	26,732	26,618
Capex	(3,391)	(8,227)	(5,301)	(5,250)	(4,950)
Right of use	(179)	(153)	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	464	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(67)	(67)	977	208	101
Cash flow from investments	(3,172)	(8,447)	(4,324)	(5,042)	(4,849)
Debt financing	404	3,126	(323)	(1,816)	(92)
Capital increase	0	0	12	0	0
Dividends paid	(2,245)	(4,116)	(4,359)	(6,875)	(7,677)
Warrants & other surplus	(431)	1,210	0	0	0
Cash flow from financing	(2,272)	219	(4,670)	(8,690)	(7,769)
Free cash flow	3,785	(7,632)	7,089	21,482	21,668

VALUATION

Expensive PE, in our view

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	123.9	138.9	51.3	47.0	43.3
Normalized PE - at target price (x)	90.6	101.6	37.5	34.4	31.7
PE (x)	118.8	125.9	51.3	47.0	43.3
PE - at target price (x)	86.9	92.1	37.5	34.4	31.7
EV/EBITDA (x)	96.9	99.6	43.8	39.1	35.2
EV/EBITDA - at target price (x)	70.4	72.7	31.9	28.3	25.3
P/BV (x)	22.4	20.4	15.8	13.1	11.0
P/BV - at target price (x)	16.4	14.9	11.5	9.6	8.1
P/CFO (x)	117.6	1,416.7	68.1	31.6	31.7
Price/sales (x)	13.2	9.9	7.3	6.9	6.7
Dividend yield (%)	0.5	0.3	0.8	0.9	1.0
FCF Yield (%)	0.4	(0.9)	0.8	2.5	2.6
(Bt)					
Normalized EPS	5.4	4.8	13.1	14.2	15.5
EPS	5.6	5.3	13.1	14.2	15.5
DPS	3.3	1.7	5.2	5.7	6.5
BV/share	29.9	32.9	42.5	51.3	60.6
CFO/share	5.7	0.5	9.8	21.2	21.1
FCF/share	3.0	(6.1)	5.6	17.1	17.2

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	21.4	33.4	36.1	5.9	3.3
Net profit (%)	139.9	(5.7)	145.4	9.1	8.6
EPS (%)	139.9	(5.7)	145.4	9.1	8.6
Normalized profit (%)	126.2	(10.8)	170.7	9.1	8.6
Normalized EPS (%)	126.2	(10.8)	170.7	9.1	8.6
Dividend payout ratio (%)	58.0	31.9	40.0	40.0	42.0
Operating performance					
Gross margin (%)	23.9	20.6	25.7	26.5	28.1
Operating margin (%)	10.1	7.0	14.1	14.5	15.2
EBITDA margin (%)	13.5	10.0	16.6	17.3	18.2
Net margin (%)	10.6	7.2	14.3	14.8	15.5
D/E (incl. minor) (x)	0.0	0.1	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.4)	(0.1)	(0.1)	(0.3)	(0.5)
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	na	na	na	na	na
ROA - using norm profit (%)	13.2	9.6	20.8	19.1	18.5
ROE - using norm profit (%)	19.2	15.4	34.6	30.4	27.6
DuPont					
ROE - using after tax profit (%)	18.9	15.4	34.7	30.4	27.7
- asset turnover (x)	1.2	1.3	1.5	1.3	1.2
- operating margin (%)	10.9	7.3	14.6	15.0	15.8
- leverage (x)	1.5	1.6	1.7	1.6	1.5
- interest burden (%)	100.0	99.9	99.9	99.9	100.0
- tax burden (%)	97.0	98.4	98.4	98.4	98.4
WACC (%)	9.7	9.7	9.7	9.7	9.7
ROIC (%)	29.1	24.4	42.6	37.9	44.8
NOPAT (Bt m)	6,165	5,829	15,928	17,360	18,825
invested capital (Bt m)	23,872	37,405	45,781	42,021	39,731

Sources: Company data, Thanachart estimates

ESG Information - Third Party Terms

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SET THSI Index (SETTHSI)

Nowadays, long-term investment tends to be more focused on sustainable companies. The financial statement performance and the consideration in environmental, social and governance (ESG) perspective are keys aspects for analysis.

SET has created a Thailand Sustainability Investment (THSI) list since 2015 for using as an alternative investment in the high performance ESG stocks for investors while, supporting the sustainable Thai companies. SET defines the sustainable companies as the companies that embrace risk management, supply chain management and innovations together with responsibility for environmental, social and governance aspects

As a result, SET has created the SETTHSI for the purpose of indicating the price of these sustainable companies that pass the market capital size and liquidity criteria.

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Score range	Description
CCC - B	LAGGARD: A company lagging its industry based on its high exposure and failure to manage significant ESG risks
BB - BBB - A	AVERAGE : A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
AA - AAA	LEADER: A company leading its industry in managing the most significant ESG risks and opportunities

The Dow Jones Sustainability Indices (DJSI)

The Dow Jones Sustainability Indices (DJSI) are a family of best-in-class benchmarks for investors who have recognized that sustainable business practices are critical to generating long-term shareholder value and who wish to reflect their sustainability convictions in their investment portfolios. The family was launched in 1999 as the first global sustainability benchmark and tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. Created jointly by S&P Dow Jones Indices and SAM, the DJSI combine the experience of an established index provider with the expertise of a specialist in Sustainable Investing to select the most sustainable companies from across 61 industries. The indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for investors who wish to encourage companies to improve their corporate sustainability practices.

S&P Global Market Intelligence

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ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. We identify five categories of ESG risk severity that could impact a company's enterprise value

Moody's ESG Solutions

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