Delta (Thailand) (DELTA TB)

2Q26 Earnings Lower Than Expected Due To A Greater-Than-Expected Impact From Raw Material Shortage

Highlights

- DELTA reported 2Q26 net profit of Bt6.08b (+31% yoy, -33% qoq). The negative surprise came from a greater-than-expected impact from raw material shortages.
- Earnings should recover in 2H26, supported by a healthy order pipeline and orders that were delayed from 2Q26, although the 2% increase in COGS will persist.
- Maintain HOLD with a lower target price of Bt300.00.

Analysis

- **Lower-than-expected earnings as raw material shortage caused order fulfilment to be delayed from 2Q26 into 2H26.** Delta (Thailand) (DELTA) reported 2Q26 net profit of Bt6.08b (+31% yoy, -33% qoq), below our and Bloomberg estimates by 35% and 33%, respectively. Sales came in at Bt65.2b (+46.5% yoy, +6.2% qoq), below our and Bloomberg estimates by 2%.
- **Raw material shortages and higher royalties hit 2Q26 margins harder than expected.** Gross margin declined significantly to 26.8% in 2Q26, down 4.9ppt (from 31.7% in 1Q26), due to: a) higher raw material costs, which reduced gross margin by 2.0ppt; b) higher costs from urgently sourcing materials in the secondary market to fulfil customer deliveries, which reduced gross margin by 0.5ppt; c) an unexpected inventory provision of Bt800m-1,000m, which reduced gross margin by 1.5ppt, as delays in customers' rack-level assembly orders required DELTA to hold inventory for longer; and d) other factors, including an unusual product mix caused by raw material shortages and overhead costs from two factories.
- **2H26 earnings should improve, but higher raw material costs will weigh on gross margin in 2H26.** We believe DELTA's earnings should improve in 2H26, driven by three key factors. First, sales should benefit from a healthy order pipeline. The 5% sales shortfall in 2Q26 due to raw material shortages is expected to be recovered through deliveries in 3Q26-4Q26. Order visibility remains solid for the next 3-6 months, suggesting that the issue in 2Q26 was execution rather than demand. Second, gross margin should recover toward 30% in 2H26, improving by 2-3ppt, driven by: a) the normalisation of inventory provisions (1.5ppt) in 2H26, b) an improvement in product mix from 2Q26 onwards.

Key Financials

Year to 31 Dec (Btm)	2024	2025	2026F	2027F	2028F
Net turnover	164,732.7	198,153.4	288,278.1	368,013.4	451,841.8
EBITDA	24,598.2	34,520.1	44,841.7	61,498.2	82,249.4
Operating profit	17,859.9	26,325.9	34,737.5	48,945.8	66,872.6
Net profit (rep./act.)	18,938.6	24,814.3	32,533.6	44,064.2	59,291.1
Net profit (adj.)	17,979.7	22,963.9	30,789.6	43,254.2	58,562.1
EPS	1.4	1.8	2.5	3.5	4.7
PE (x)	197.7	154.8	115.5	82.2	60.7
P/B (x)	44.5	36.8	29.7	23.7	19.0
EV/EBITDA (x)	144.0	102.4	78.9	57.5	43.0
Dividend yield (%)	0.2	0.2	0.3	0.5	0.8
Net margin (%)	11.5	12.5	11.3	12.0	13.1
Net debt to equity (%)	(17.0)	(18.9)	(14.1)	(11.2)	(9.8)
Consensus net profit	n.a	n.a	37,167.1	50,455.9	65,732.8
UOBKH/Consensus (x)	n.a	n.a	0.8	0.9	0.9

Source: Delta (Thailand), Bloomberg, UOB Kay Hian

HOLD (Maintained)	
Share Price	Bt285.00
Target Price	Bt300.00
Upside	4.2%
Previous TP	Bt320.00

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Stock Data

GICS sector	Information Technology
Bloomberg ticker:	DELTA TB
Shares issued (m):	12,473.8
Market cap (Bt$m):	3,555,037.6
Market cap (US$m):	106,126.9
3-mth avg daily t'over (US$m):	163.5

Price Performance (%)

52-week high/low: Bt364.0/Bt142.0

1mth	3mth	6mth	1yr	YTD
(12.3)	(8.6)	37.0	99.3	64.7

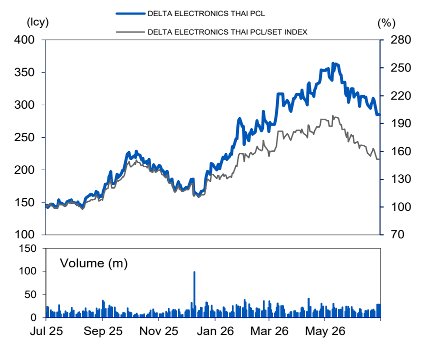
Major Shareholders

	%
DELTA ELECTRONICS INT'L (SINGAPORE) PTE. LTD.	42.85
CITI (NOMINEES) LIMITED-CBHK-PBGSG-RESTRICTED SHARES	13.86
DELTA INTERNATIONAL HOLDING LIMITED B.V.	12.71

Balance Sheet Metrics

	%
FY26 NAV/Share (Bt)	9.6
FY26 Net Debt/Share (Bt)	(1.4)

Price Chart



Source: Bloomberg

Company Description

Delta Electronics is an electronics exporter, manufacturer of power supplies and electronic components i.e. DC fan, EMI filters and solenoids.

- **Raw material costs will remain high in 2H26, but some raw material constraints are expected to ease.** While the 2% increase in COGS from higher supplier prices is expected to persist into 2H26, several temporary pressures should ease as: a) inventory provisions should normalise as customers' rack level assembly are expected to draw down this inventory amid the DRAM shortage; b) the impact of EU sanctions on Yangzhou Yangjie Electronic, a Chinese supplier of power semiconductors including MOSFETs and diodes, should be under control by September; and c) rush sourcing and reliance on the secondary market should decline from 2Q26 levels.
- **Raw material availability remains the key constraint on order execution despite solid six-month demand visibility.** Management is not concerned that the delay of orders from 2Q26 into 2H26 will strain capacity or lead to production delays, as two new factories have come online. Management guides for a 40:60 revenue contribution between 1H26 and 2H26, which we view as relatively aggressive. We forecast a 44:56 split, compared with the three-year historical average of 46:54.
- **Better product mix should help offset further raw material cost pressure in 4Q26.** Additional price negotiations are expected in 4Q26. While DELTA expects some vendors to raise raw material prices slightly further, two new factories producing high-growth products should support a more favourable product mix and help mitigate raw material cost pressure in 4Q26.

Valuation/Recommendation

- **We maintain HOLD with a lower target price of Bt300.00 (down from Bt320.00).** Our target price is based on 84x 2027F PE, which is near +1.5SD to its five-year mean. As we roll over to 2027 valuation, we assign a 15% premium (from 30% premium) compared with the average PE of 73x over 2021-24. Our multiple de-rating reflects a lower gross margin and operating profile from higher raw material prices and higher royalty fee assumption.
- In the near term, we expect DELTA's valuation to remain under pressure from lower gross and operating margins profile, amid the current broader sell-off in AI infrastructure stocks. We believe investors will require a more attractive risk-reward profile or a valuation discount amid conservative hyperscaler capex forecasts (a slower pace of 2027 growth). However, capex forecasts could be revised up later in 2027 guidance, which is what happened at the beginning of 2026.
- We recommend accumulating the stock at Bt260.00-280.00, implying a valuation range of +0.75SD to +1.25SD, or a 0-10% premium to its 2021-24 average forward P/E of 73x. The premium is justified by DELTA meeting the Rule of 40, its lower free float relative to Delta Taiwan, and its strong positioning in customised power supplies amid the ongoing data centre buildout cycle.

Earnings Revision/Risk

- We revise down 2026-28 net profit forecasts by 23%/22%/19% respectively, reflecting a lower gross margin assumption from a higher cost structure of 2% COGS, and a lower operating margin assumption due to an increase in royalty fees from 7% to 8% of sales.

Share Price Catalyst

- Stronger-than-expected operating margin and sales.

Environment, Social, Governance (ESG) Updates

Environmental

- DELTA targets to reduce electricity consumption intensity (EI) by 20% in 2025 (compared with the base year 2020) and has also set a target to increase the proportion of renewable energy use to 100% by 2030.

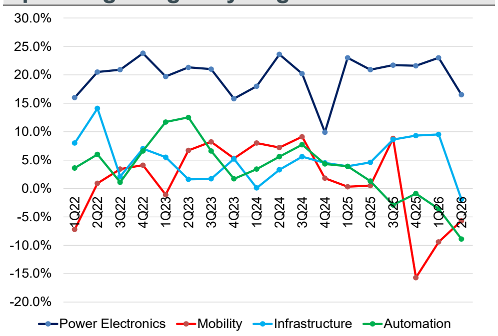
Social

- DELTA is committed to conducting business according to its Corporate Social Responsibility Policy, covering governance, regulatory compliance and environmental matters.

Governance

- DELTA has achieved its board diversity target by appointing three female directors, representing 30% of total board members as of 2024, reinforcing board independence and expertise.

Operating Margin By Segment



Source: Bloomberg

2Q26 Earnings Results

(Btm)	2Q26	2Q25	1Q26	yoy (%)	qoq (%)
Revenue	65,191	44,490	61,387	46.5%	6.2%
Gross profit	17,469	11,109	19,466	57.2%	-10.3%
Operating profit	6,114	5,098	9,691	19.9%	-36.9%
Operating EBITDA	8,640	7,214	12,015	19.8%	-28.1%
Core profit	5,527	4,526	8,837	22.1%	-37.5%
Net profit	6,075	4,629	9,081	31.2%	-33.1%
EPS	0.49	0.37	0.73	31.2%	-33.1%
Financial ratio				ppts	ppts
Gross profit margin	26.8	25.0	31.7	-4.9	1.8
EBITDA margin	13.3	16.2	19.6	-6.3	-3.0
Operating margin	9.4	11.5	15.8	-6.4	-2.1
SG&A Exp./ Sales	14.1	10.3	12.8	1.2	3.7
Net profit margin	9.3	10.4	14.8	-5.5	-1.1

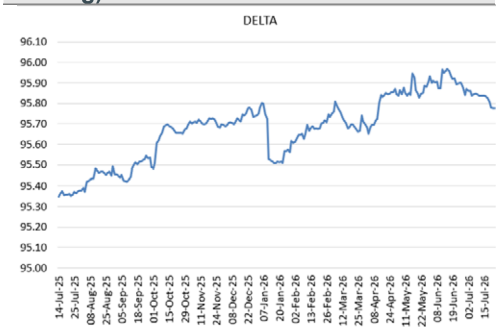
Source: Bloomberg

Earnings Revision (2026-28)

(Btm)	2026	%Chg	2027	%Chg	2028	%Chg
Revenue (Btm)	288,278	(1.3)	368,013	(3.0)	451,842	(5.4)
Gross profit	85,042	(9.7)	113,716	(9.8)	145,493	(9.9)
SG&A	(40,071)	3.9	(52,258)	2.4	(63,258)	(1.2)
Operating EBIT	35,314	(22.8)	48,946	(21.3)	66,873	(17.7)
Operating EBITDA	45,418	(18.7)	61,498	(17.7)	82,249	(14.9)
Net profit	33,024	(21.9)	44,064	(21.8)	59,291	(18.5)
Core profit	31,280	(22.9)	43,254	(21.5)	58,562	(18.2)
EPS	2.65	(21.9)	3.53	(21.8)	4.75	(18.5)
Core EPS	2.51	(22.9)	3.47	(21.5)	4.69	(18.2)
%		**ppt**		**ppt**		**ppt**
Gross margin	29.5	(2.7)	30.9	(2.3)	32.2	(1.6)
SG&A to sales	13.9	0.7	14.2	0.8	14.0	0.6
Operating margin	12.3	(3.4)	13.3	(3.1)	14.8	(2.2)
Operating EBIT margin	12.3	(3.4)	13.3	(3.1)	14.8	(2.2)
Operating EBITDA margin	15.8	(3.4)	16.7	(3.0)	18.2	(2.0)
Net profit margin	11.5	(3.0)	12.0	(2.9)	13.1	(2.1)
Core profit margin	10.9	(3.0)	11.8	(2.8)	13.0	(2.0)

Source: Bloomberg

Foreign Ownership stood At 95.8% Of Total Outstanding Shares (Before Analyst meeting)



Source: Bloomberg

Five-Year Forward PE Band

Source: Bloomberg

Profit & Loss

Year to 31 Dec (Btm)	2025	2026F	2027F	2028F
Net turnover	198,153	288,278	368,013	451,842
EBITDA	34,520	44,842	61,498	82,249
Deprec. & amort.	8,194	10,104	12,552	15,377
EBIT	26,326	34,738	48,946	66,873
Total other non-operating income	2,370	3,239	2,642	2,629
Associate contributions	1	1	0	0
Net interest income/(expense)	189	252	252	252
Pre-tax profit	28,887	38,230	51,840	69,754
Tax	(4,073)	(5,696)	(7,776)	(10,463)
Minorities	0	0	0	0
Net profit	24,814	32,534	44,064	59,291
Net profit (adj.)	22,964	30,790	43,254	58,562

Balance Sheet

Year to 31 Dec (Btm)	2025	2026F	2027F	2028F
Fixed assets	46,840	57,200	68,144	79,486
Other LT assets	3,218	3,445	4,209	4,927
Cash/ST investment	20,288	19,393	19,158	20,783
Other current assets	83,786	122,862	157,905	197,749
Total assets	154,131	202,900	249,416	302,946
ST debt	926	1,039	1,039	1,039
Other current liabilities	51,343	75,956	91,742	107,134
LT debt	1,037	1,405	1,405	1,405
Other LT liabilities	4,098	4,674	5,406	5,965
Shareholders' equity	96,727	119,825	149,824	187,402
Minority interest	0	0	0	0
Total liabilities & equity	154,131	202,900	249,416	302,946

Cash Flow

Year to 31 Dec (Btm)	2025	2026F	2027F	2028F
Operating	29,682	33,472	42,780	56,047
Pre-tax profit	28,887	38,230	51,840	69,754
Tax	(4,073)	(5,696)	(7,776)	(10,463)
Deprec. & amort.	8,194	10,104	12,552	15,377
Working capital changes	(8,565)	(14,542)	(18,855)	(24,523)
Non-cash items	0	0	0	0
Other operating cashflows	5,239	5,376	5,019	5,902
Investing	(16,132)	(20,017)	(23,469)	(26,799)
Capex (growth)	(14,957)	(20,366)	(23,437)	(26,640)
Investments	(1,177)	(167)	(458)	(458)
Others	3	516	427	299
Financing	(5,956)	(8,954)	(14,066)	(21,713)
Dividend payments	(5,738)	(9,436)	(14,066)	(21,713)
Issue of shares	0	0	0	0
Proceeds from borrowings	(126)	481	0	0
Others/interest paid	(93)	0	0	0
Net cash inflow (outflow)	7,594	4,501	5,246	7,535
Beginning cash & cash equivalent	15,701	20,288	19,393	19,158
Ending cash & cash equivalent	23,295	24,789	24,638	26,693

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	17.4	15.6	16.7	18.2
Pre-tax margin	14.6	13.3	14.1	15.4
Net margin	12.5	11.3	12.0	13.1
Growth				
Net profit (adj.)	27.7	34.1	40.5	35.4
Leverage				
Debt to total capital	2.0	2.0	1.6	1.3
Debt to equity	2.0	2.0	1.6	1.3
Net debt/(cash) to equity	(18.9)	(14.1)	(11.2)	(9.8)