

COMPANY UPDATE

Delta Electronics (DELTA TB)

Still Tired In The Near Term

DELTA will focus more on automotive products as it believes the electric vehicle market would see high potential growth. However, earnings from 4Q19 to 2020 should still be pressured by: a) the US-China trade tension; b) fragile macro backdrop; c) General Motors' strike from 15 Sep to 25 Oct 19, and d) the strong baht. Maintain HOLD. Target price: Bt43.00. Entry price: Bt39.00.

WHAT'S NEW

- Delta Thailand's plant visits.** We are more optimistic on Delta Electronics (DELTA) after our visit to its plants at Bangpoo Industrial Estate (Samutprakarn, Thailand and Wellgrow Industrial Estate (Chachoengsao, Thailand. We visited Plant 1 (automotive power electronics (APE) production line), Plant 3 (telecom and automotive production line), Plant 5 (power supply and server production line), and Plant 6 (fan production line). These plants (excluding Plant 3 as it belongs to Delta Taiwan) account for more than 70% of the company's total production area.
- More focus on automotive products.** DELTA will focus more on automotive products as it believes the electric vehicle (EV) market would see high potential growth. One of the new products it will be launching is the traction inverter - the motor drive in an electric car which is expected to be a high-margin product. DELTA will also have 4-5 new automotive products under development. DELTA expects to open a new automotive plant (DET7) in the Wellgrow Industrial Estate to support expected new demand from EV developers.
- 4Q19 results expected to improve slightly qoq.** Excluding impact from the baht, management expects slightly improved qoq earnings in 4Q19 due to a higher utilisation rate. However, the yoy improvement yoy could be under pressure from: a) poor automotive sales in the US on the back of the General Motors (GM) strike during 15 September to 25 Oct 19; b) lower sales in India; and c) SG&A-to-sales remaining high given more R&D expense and royalty fees.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	49,224	53,067	51,853	51,946	55,621
EBITDA	6,991	6,386	4,453	4,577	4,963
Operating profit	5,950	5,145	3,228	3,319	3,656
Net profit (rep./act.)	4,931	5,137	3,205	3,295	3,627
Net profit (adj.)	5,806	4,984	3,205	3,295	3,627
EPS (Bt)	4.7	4.0	2.6	2.6	2.9
PE (x)	9.6	11.1	17.3	16.8	15.3
P/B (x)	1.7	1.6	1.5	1.5	1.4
EV/EBITDA (x)	5.0	5.5	7.9	7.7	7.1
Dividend yield (%)	6.7	4.9	3.5	3.6	3.9
Net margin (%)	10.0	9.7	6.2	6.3	6.5
Net debt/(cash) to equity (%)	(52.6)	(46.0)	(56.5)	(60.0)	(61.7)
Interest cover (x)	356.0	677.9	555.9	847.0	915.2
ROE (%)	15.3	15.5	9.1	8.9	9.5
Consensus net profit	-	-	3,587	4,212	4,691
UOBKH/Consensus (x)	-	-	0.89	0.78	0.77

Source: Delta Electronics, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Bt44.50
Target Price	Bt43.00
Upside	-3.4%

COMPANY DESCRIPTION

Leading power supplies manufacturer. The company produces power systems for information technology, telecommunication, automotive, medical equipment, industrial automation, and household appliances.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	DELTA TB
Shares issued (m):	1,247.4
Market cap (Btm):	55,508.5
Market cap (US\$m):	1,839.1
3-mth avg daily t'over (US\$m):	1.3

Price Performance (%)

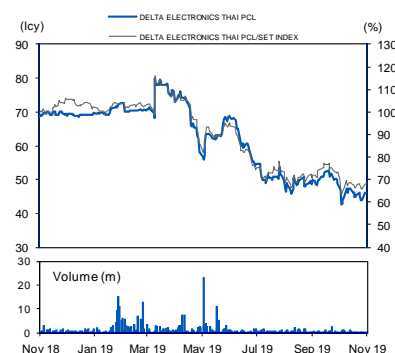
52-week high/low	Bt80.00/Bt42.50			
1mth	3mth	6mth	1yr	YTD
(11.4)	(13.6)	(28.5)	(35.0)	(36.0)

Major Shareholders

	%
Deltron Holding	27.7
Delta Electronics (TAIWAN)	20.0

FY19 NAV/Share (Bt)	29.04
FY19 Net Cash/Share (Bt)	16.42

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Remain cautious on sales outlook.** Excluding forex impact, 3Q19 sales in US\$ came in at US\$402m (-3% yoy) - US\$346m from the ODM business (-3% yoy) and US\$56m from the components business (-3% yoy). We expect 4Q19 sales to fall slightly yoy mainly due to the: a) slowdown in APE sales in the US as GM strike was prolonged to 25 Oct 19; and b) lower Telecom Power Solution sales in India. However, we expect 4Q19 top-line to improve qoq, mainly due to a higher utilisation rate after the volume ramp-up on a new production line.
- Hybrid strategies amid negative headwinds.** Amid negative headwinds, we believe DELTA has adopted a range of strategies, including venturing into new high-potential 5G and EV components markets. According to Bloomberg, global 5G handset sales are expected to grow at a 183% CAGR over 2019-23. This should support demand for data centres in the long term. The EV market is expected to grow from 2m units in 2018 to more than 10m units in 2025 and 23m units in 2030, according to an International Energy Agency report.
- Sensitivity analysis of baht appreciation.** DELTA has 75% revenue exposure to the US dollar vs a 60% exposure on the cost side. Our sensitivity analysis shows that a 1% change in the baht (base case is Bt31.00/US\$) will impact DELTA's earnings by 3.4% in 2019.

SEGMENT INFORMATION

SALES (Btm)	3Q18	2Q19	3Q19	yoy ppt chg	qoq ppt chg
Power electronics	8,813	8,795	7,624	(13.5)	55,621
Infrastructure	4,073	4,483	4,101	0.7	4,963
Automation	515	470	451	(12.4)	3,656
Others	154	21	43	(72.1)	3,627
Operating profit (Btm)					
Power electronics	1,350	741	550	(59.3)	2.9
Infrastructure	311	177	75	(75.9)	15.8
Automation	123	16	28	(77.2)	1.5
Others	(286)	(276)	(244)	(14.7)	7.4
Operating margin (%)				yoy bp chg	qoq bp chg
Power electronics	15.3	8.4	7.2	7.2	(1.2)
Infrastructure	7.6	3.9	1.8	1.8	(2.1)
Automation	23.9	3.4	6.2	6.2	2.8
Others	(185.7)	(1,314.3)	(567.4)	(567.4)	746.8

Source: Delta Electronics, UOB Kay Hian

EARNINGS REVISION/RISK

- None.

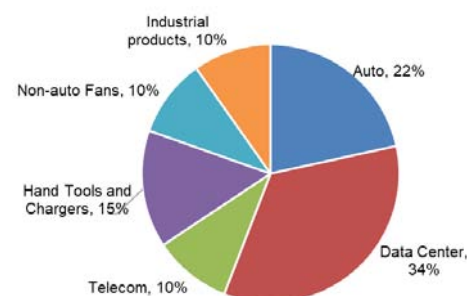
VALUATION/RECOMMENDATION

- Maintain HOLD with a lower target price of Bt43.00**, based on 16.3x 2020F PE, or -1SD to its 5-year mean. After share price dropped 13% mom last month, we believe the negative headwinds should have been priced in. However, thanks to the promising outlook in the data centre and automotive businesses, we are still positive on DELTA's long-term growth. Entry price is Bt39.00.

SHARE PRICE CATALYST

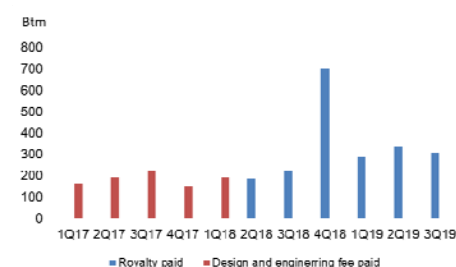
- None.

SALES BY PRODUCT



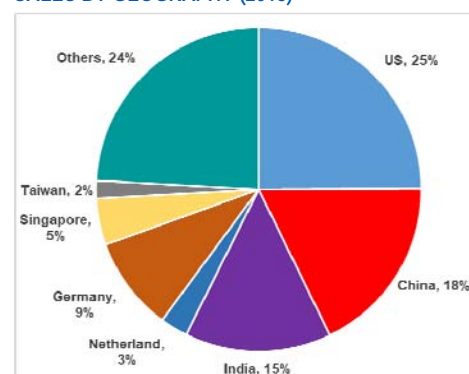
Source: Delta, UOB Kay Hian

ROYALTY FEE



Source: Delta, UOB Kay Hian

SALES BY GEOGRAPHY (2018)



Source: Delta, UOB Kay Hian

PE BAND



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	53,067	51,853	51,946	55,621
EBITDA	6,386	4,453	4,577	4,963
Deprec. & amort.	1,241	1,225	1,258	1,307
EBIT	5,145	3,228	3,319	3,656
Total other non-operating income	123	52	52	56
Associate contributions	53	57	57	61
Net interest income/(expense)	(9)	(8)	(5)	(5)
Pre-tax profit	5,312	3,329	3,423	3,767
Tax	(185)	(131)	(134)	(148)
Minorities	11	7	7	7
Net profit	5,137	3,205	3,295	3,627
Net profit (adj.)	4,984	3,205	3,295	3,627

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	4,015	6,418	4,860	4,533
Pre-tax profit	5,322	3,336	3,429	3,775
Tax	(185)	(131)	(134)	(148)
Deprec. & amort.	1,241	1,225	1,258	1,307
Associates	(11)	(7)	(7)	(7)
Working capital changes	(2,352)	1,995	313	(393)
Non-cash items	0	0	0	0
Other operating cashflows	0	0	0	0
Investing	(1,906)	(731)	(946)	(942)
Capex (growth)	(1,915)	(768)	(985)	(982)
Capex (maintenance)	0	0	0	0
Investments	48	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(39)	37	38	39
Financing	(3,821)	(548)	(1,881)	(2,056)
Dividend payments	(2,744)	(1,923)	(1,977)	(2,176)
Issue of shares	0	1,004	0	0
Proceeds from borrowings	(162)	369	89	113
Loan repayment	0	0	0	0
Others/interest paid	(915)	2	7	7
Net cash inflow (outflow)	(1,712)	5,140	2,032	1,535
Beginning cash & cash equivalent	17,320	15,608	20,748	22,780
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	15,608	20,748	22,780	24,314

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	7,957	7,732	7,474	7,167
Other LT assets	2,256	2,024	2,008	1,990
Cash/ST investment	15,608	20,748	22,780	24,314
Other current assets	22,380	20,237	20,257	21,669
Total assets	48,201	50,740	52,518	55,140
ST debt	0	269	258	271
Other current liabilities	12,358	12,210	12,542	13,561
LT debt	0	0	0	0
Other LT liabilities	1,902	2,039	2,177	2,316
Shareholders' equity	33,941	36,222	37,541	38,991
Minority interest	0	0	0	0
Total liabilities & equity	48,201	50,740	52,518	55,140

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	12.0	8.6	8.8	8.9
Pre-tax margin	10.0	6.4	6.6	6.8
Net margin	9.7	6.2	6.3	6.5
ROA	10.9	6.5	6.4	6.7
ROE	15.5	9.1	8.9	9.5
Growth				
Turnover	7.8	(2.3)	0.2	7.1
EBITDA	(8.6)	(30.3)	2.8	8.4
Pre-tax profit	2.0	(37.3)	2.8	10.1
Net profit	4.2	(37.6)	2.8	10.1
Net profit (adj.)	(14.2)	(35.7)	2.8	10.1
EPS	(14.2)	(35.7)	2.8	10.1
Leverage				
Debt to total capital	0.0	0.7	0.7	0.7
Debt to equity	0.0	0.7	0.7	0.7
Net debt/(cash) to equity	(46.0)	(56.5)	(60.0)	(61.7)
Interest cover (x)	677.9	555.9	847.0	915.2

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