

Delta Electronics - DELTA

2QCY12 earnings likely to pick up q-q

Bloomberg | Reuters
DELTA.TB | DELTA.BK

Phillip Securities Research Pte Ltd
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Report type: Company Preview

Company Overview

DELTA is a Thailand-based manufacturer and exporter of power supplies, DC converter and electronics equipment and parts.

- We expect DELTA to post 2QCY12 net profit of Bt854mn, down 6% y-y but up 20% q-q on higher sales and wider gross margin.
- Sales in the second half of the year would be weaker than expected as sluggish economy appears to have negative impact on clients' orders.
- We reiterate a 'BUY' rating on DELTA shares with a target price of Bt27.50/share.

What is the news?

We expect 2QCY12 net profit to grow 20% q-q on a 17% increase in sales. Gross margin is likely to stay flat q-q, while SG&A expenses remain elevated.

How do we view this?

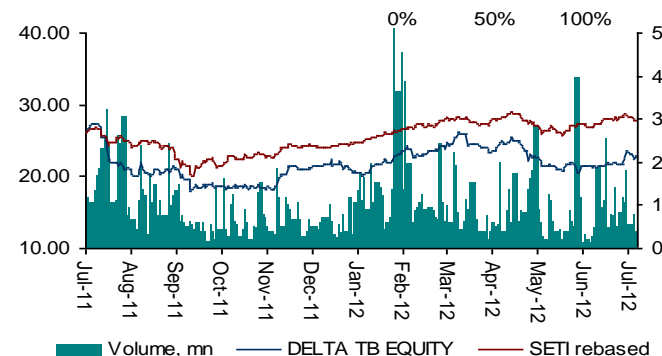
Earnings outlook is likely to be weaker than earlier expected as sluggish economy appears to have negative impact on clients' order in 4QCY12. This prompts us to cut down our full-year sales estimate.

Investment Actions?

We reiterate a 'BUY' rating on DELTA shares with a target price of Bt27.50/share.

Delta Electronics (Thailand)

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (Bt)	27.5	
- Previous Target Price (Bt)	27.25	
Closing Price (Bt)	23.20	
Expected Capital Gains (%)	18.53	
Expected Dividend Yield (%)	5.60	
Expected Total Return (%)	24.14	
Raw Beta (Past 2yrs w weekly data)	0.56	
Market Cap. (USD mn)	913	
Enterprise Value (USD mn)	606	
Market Cap. (Bt mn)	28,939	
Enterprise Value (Bt mn)	19,496	
3M Average Daily T/O (mn)	0.9	
52 week range	17.8 - 27.5	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Citibank Nominees Singapore PTE Ltd-SA PBG Clients SG	58.1
2. State Street Bank and Trust Company for London	6.6
3. Delta Electronics Inc.	5.5

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (Btmn)	35,730	38,434	39,126	40,299
Net Profit, adj. (Btmn)	3,995	2,641	3,055	3,240
EPS, adj. (Bt)	3.20	2.12	2.45	2.60
P/E (X),adj.	7.2	11.0	9.5	8.9
BVPS (Bt)	15.47	15.92	17.23	18.58
P/B (X)	1.5	1.5	1.3	1.2
DPS (Bt)	1.70	1.20	1.30	1.40
Div. Yield (%)	7.3	5.2	5.6	6.0

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E12 (11x)

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2QCY12 net profit likely to fall 6% y-y but to grow 20% q-q to Bt854mn

Sales are expected to grow 17% q-q to US\$330mn in 2QCY12 as pent-up demand because of late last-year flood forced clients to delay their purchasing orders in 1QCY12, helped drive quarterly purchasing order significantly higher. Particularly, sales proportion from the data center segment of more than 40% of the total will likely be a catalyst to total sales growth in the quarter. Sales of solar cells in new markets, such as Australia and New Zealand, started to pick up. Gross margin is expected to be wider y-y on an absence of provision in the solar cells as recorded in a year ago (gross margin is expected to stay flat q-q). SG&A expense is expected to stay flat q-q. We project 2QCY12 net profit of Bt854mn, down 6% y-y but up 20% q-q.

2HCY12 sales to be weaker than earlier expected on sluggish economy

Sales in 2HCY12 are likely to be weaker than earlier expected on sluggish economy, which has rekindled clients' concerns about their sales performance especially in 4QCY12. This prompts us to cut down our CY12 sales forecast by 9% to US\$1,242, representing a 2% y-y reduction. Gross margin is expected to be wider than estimated as sales of high-margin products continue to grow, coupled with an absence of provision for the solar product segment unlike the previous year. Nevertheless, SG&A expense would stay elevated as the company has penetrated new markets, and there would be extra expense from organization restructuring. On this basis, we therefore raise our CY12 net profit projection by 9% y-y to Bt3,135mn.

'BUY' rating maintained with target price of Bt27.50

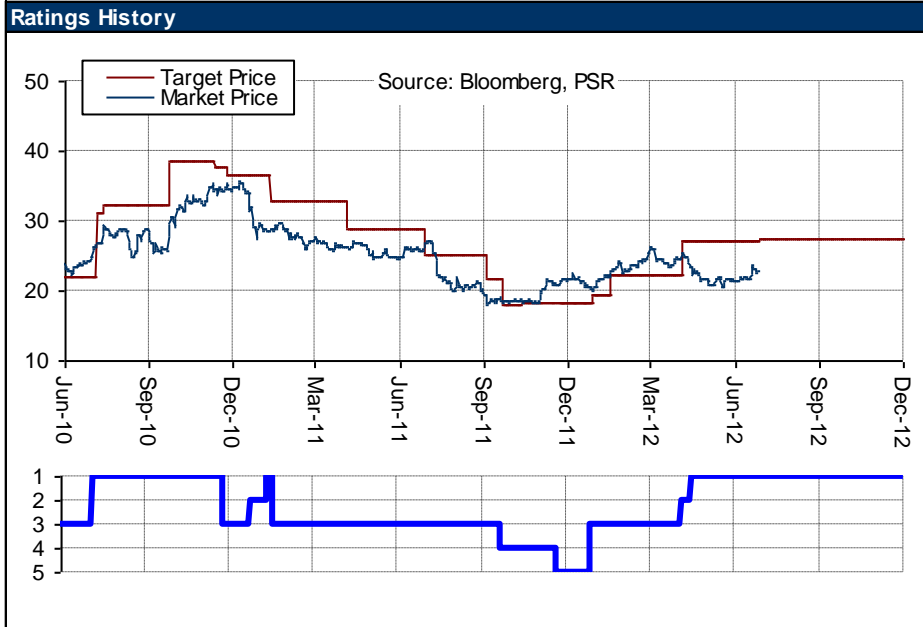
Sluggish global economy continues to put pressure on electronics parts-linked stocks on concerns about slowing demand. As sales proportion in the public sector is expected to be at high level, we believe negative impact from slowing economic growth would not be as much as the market's concern. We therefore reiterate a 'BUY' rating on DELTA shares with a target price of Bt27.50/share.

FYE Dec	CY09	CY10	CY11	CY12F	CY13F
Valuation Ratios					
P/E (X), adj.	13.2	7.2	11.0	9.5	8.9
P/B (X)	1.6	1.5	1.5	1.3	1.2
EV/EBITDA (X), adj.	5.8	4.2	5.8	5.1	4.8
Dividend Yield (%)	6.5	7.3	5.2	5.6	6.0
Per share data (Bt)					
EPS, reported	1.76	3.33	2.30	2.51	2.65
EPS, adj.	1.76	3.20	2.12	2.45	2.60
DPS	1.50	1.70	1.20	1.30	1.40
BVPS	14.15	15.47	15.92	17.23	18.58
Growth & Margins (%)					
Growth					
Revenue	-17.8	32.4	7.6	1.8	3.0
EBITDA	-11.8	36.2	-27.4	14.8	6.6
EBIT	-28.3	71.8	-30.0	15.7	6.7
Net Income, adj.	-28.7	81.9	-33.9	15.7	6.0
Margins					
EBITDA margin	12.5	12.9	8.7	9.8	10.1
EBIT margin	8.6	11.2	7.3	8.3	8.6
Net Profit Margin	8.1	11.2	6.9	7.8	8.0
Key Ratios					
ROE (%)	11.9	21.3	13.9	14.2	14.4
ROA (%)	7.7	14.0	9.3	9.7	10.0
Net Debt-Cash	(7,923)	(7,684)	(8,009)	(8,718)	(8,955)
Net Gearing(X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (Bt m n)					
Revenue	26,995	35,730	38,434	39,126	40,299
EBITDA	3,379	4,600	3,339	3,833	4,086
Depreciation & Amortisation	682	647	746	821	862
EBIT	2,322	3,990	2,794	3,232	3,449
Net Finance (Expense)/Income	(60)	(61)	(98)	(98)	(126)
Other items	269	288	494	514	527
Associates & JVs	33	11	17	18	20
Profit Before Tax	2,262	3,929	2,697	3,134	3,323
Taxation	65	(67)	55	78	83
Profit After Tax	2,197	3,995	2,641	3,055	3,240
Non-controlling Interest	(0)	(28)	0	(0)	(0)
Net Income, reported	2,189	4,153	2,864	3,135	3,300
Net Income, adj.	2,197	3,995	2,641	3,055	3,240

Source: PSR est.

FYE Dec	CY09	CY10	CY11	CY12F	CY13F
Balance Sheet (Bt mn)					
Cash	10,553	9,207	9,513	10,168	10,474
ST Investments					
Accounts Receivables	5,485	6,223	6,859	7,182	7,949
Inventories	3,829	6,468	5,952	6,389	6,745
Others	749	916	929	1,068	1,175
Total current assets	20,795	22,814	23,253	24,807	26,343
PPE	3,644	4,225	4,727	4,807	4,864
Intangibles	821	727	750	655	617
Associates & JVs	591	545	0	0	0
Others	528	374	304	313	320
Total non-current assets	6,290	6,797	6,630	6,608	6,620
Total Assets	27,085	29,611	29,884	31,416	32,963
Short term loans	1,433	1,297	1,278	1,248	1,336
Accounts Payables	4,645	7,455	7,173	7,187	7,156
Others	1,997	434	438	416	395
Total current liabilities	8,218	9,186	8,889	8,851	8,887
Long term loans	1,196	226	226	203	183
Others	22	902	910	956	1,004
Total liabilities	9,437	10,313	10,024	10,010	10,073
Non-controlling interest	60	87	0	0	0
Shareholder Equity	17,588	19,210	19,859	21,406	22,890
Cashflow Statements (Bt mn)					
CFO					
PBT	2,255	4,114	2,919	3,214	3,383
Adjustments	796	937	1,334	475	953
Cash from ops before WC changes	3,069	5,003	3,963	3,738	4,454
WC changes	1,276	(2,648)	(992)	(682)	(1,740)
Cash generated from ops	4,414	2,405	3,111	3,177	2,829
Taxes paid, net	(102)	(96)	(92)	(63)	(68)
Interest paid	(83)	(56)	(90)	(113)	(141)
Cashflow from ops	4,228	2,252	2,929	3,000	2,620
CFI					
CAPEX, net	(502)	(1,437)	(1,267)	(944)	(895)
Investments in subs & associates					
Cashflow from investments	(460)	(1,213)	(567)	(998)	(931)
CFF					
Share issuance					
Loans, net of repayments	(1,020)	(174)	(124)	(5)	111
Dividends to shareholders & capital reduction	(1,372)	(1,871)	(2,121)	(1,497)	(1,624)
Others					
Cashflow from financing	(2,392)	(2,045)	(2,245)	(1,502)	(1,513)
Net change in cash	1,337	(1,376)	133	517	195
Effects of exchange rates	(40)	(371)	15	17	18
CCE, end	10,553	9,207	9,513	10,168	10,474

Source: PSR est.



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
>-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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