

Delta Electronics - DELTA

Bright earnings prospect in CY13

Bloomberg | Reuters
DELTA TB | DELTA.BK

Phillip Securities Research Pte Ltd
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Report type: Company Update

Company Overview

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

- DELTA posted stronger-than-expected earnings in 1QCY13 on wider gross margin and effective cost cutting strategy, pulling marketing expense sharply lower.
- Earnings in 2QCY13 are expected to soften q-q but overall performance appears to be upbeat and thus we upgrade our CY13 earnings outlook.
- We rate DELTA a 'BUY' with a revised-up target price to Bt46/share.

What is the news?

DELTA reported upbeat earnings in 1QCY13 on higher gross margin and lower SG&A expense.

How do we view this?

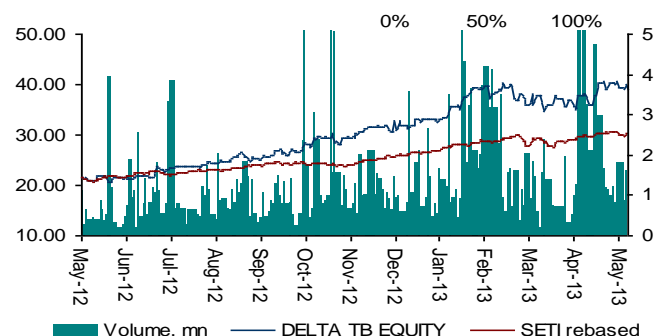
We expect 2QCY13 earnings to soften q-q but better-than-expected lower SG&A expense prompt us to raise our whole-year outlook, which is projected to continue to grow y-y.

Investment Actions?

We foresee promising earnings growth this year and reiterate a 'BUY' rating on DELTA with a target price of Bt46/share.

Delta Electronics (Thailand)

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (Bt)	46	
- Previous Target Price (Bt)	43.5	
Closing Price (Bt)	38.75	
Expected Capital Gains (%)	18.71	
Expected Dividend Yield (%)	6.19	
Expected Total Return (%)	24.90	
Raw Beta (Past 2yrs weekly data)	0.72	
Market Cap. (USD mn)	1,601	
Enterprise Value (USD mn)	1,173	
Market Cap. (Bt mn)	48,336	
Enterprise Value (Bt mn)	35,806	
3M Average Daily T/O (mn)	1.6	
52 w week range	20.5 - 41	
Closing Price in 52 w week range		



Major Shareholders

	(%)
1. Citibank Nominees Singapore PTE Ltd-SA PBG Clients SG	58.1
2. Delta Electronics Inc.	5.5
3. State Street Bank Europe Limited	5.4

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (Btmn)	38,434	40,779	39,938	40,957
Net Profit, adj. (Btmn)	2,641	4,195	4,304	4,392
Net Profit (Btmn)	2,864	4,347	4,424	4,522
EPS, adj. (Bt)	2.12	3.36	3.45	3.52
EPS, (Bt)	2.30	3.49	3.55	3.63
P/E (X),adj.	18.3	11.5	11.2	11.0
BV/PS (Bt)	15.92	18.04	19.18	20.39
P/B (X)	2.4	2.1	2.0	1.9
DPS (Bt)	1.20	2.40	2.40	2.45
Div. Yield (%)	3.1	6.2	6.2	6.3

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E13 (13x)

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1QCY13 earnings beat forecast

DELTA reported upbeat earnings in 1QCY13, rising 70% y-y and 49% q-q, as operating expense declined at faster pace, partially attributed to wider gross margin.

Sales rose 14% y-y to US\$320mn in the quarter as a result of i) higher sales in India after the implementation of 4G/LTE network; ii) rising sales in telecom power solutions (TPS); and iii) increased demand for data center products. Such notably increased sales, particularly high-margin yielded products, and a reduction in provision for TPS product segment helped widen quarterly gross margin to 27% from 25.7% in 1QCY12. Furthermore, lower R&D expense dragged SG&A to sale down to 14.9% from 18.4% a year earlier.

2QCY13 earnings likely to soften q-q; CY13 outlook remains upbeat

Earnings in 2QCY13 are projected to soften q-q as a total number of operation days is less than that of 1QCY13 on the long holidays during Songkran festival. Nonetheless, the flagship products in data center and TPS segments will further drive sales higher in the quarter. A launch of new model is expected to boost sales in the second half of the year. To reflect promising growth outlook, we raise our CY13 earnings projection by 5% from previous estimate. Our sales forecast remains unchanged at US\$1,377mn, representing growth of 5% y-y, but gross margin is expected to widen while SG&A to sales ratio is revised down. Net profit is projected to grow 2% y-y to Bt4,424mn (FX rate of Bt29/USD).

'BUY' maintained with Bt46 target price

DELTA is one of our top pick in electronic component sector as the company has focused on high-margin yielded projects, which catalyze earnings to outpace that of industry peers. At current share prices, we reiterate a 'BUY' rating on DELTA with a target price of Bt46/share.

FYE Dec	CY10	CY11	CY12	CY13F	CY14F
Valuation Ratios					
P/E (X), adj.	12.2	18.3	11.5	11.2	11.0
P/B (X)	2.5	2.4	2.1	2.0	1.9
EV/EBITDA (X), adj.	7.8	10.8	7.2	6.9	6.8
Dividend Yield (%)	4.4	3.1	6.2	6.2	6.3
Per share data (Bt)					
EPS, reported	3.33	2.30	3.49	3.55	3.63
EPS, adj.	3.18	2.12	3.36	3.45	3.52
DPS	1.70	1.20	2.40	2.40	2.45
BVPS	15.47	15.92	18.04	19.18	20.39
Growth & Margins (%)					
Growth					
Revenue	32.4	7.6	6.1	-2.1	2.6
EBITDA	36.2	-28.0	50.5	4.1	2.2
EBIT	71.8	-30.0	53.9	4.6	2.2
Net Income, adj.	80.7	-33.4	58.8	2.6	2.0
Margins					
EBITDA margin	12.9	8.6	12.2	13.0	12.9
EBIT margin	11.2	7.3	10.5	11.3	11.2
Net Profit Margin	11.2	6.9	10.3	10.8	10.7
Key Ratios					
ROE (%)	21.3	13.5	18.8	18.2	18.1
ROA (%)	14.0	9.1	13.1	12.9	12.9
Net Debt-Cash	(7,684)	(8,009)	(11,618)	(11,248)	(12,286)
Net Gearing(X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (Bt mn)					
Revenue	35,730	38,434	40,779	39,938	40,957
EBITDA	4,600	3,313	4,985	5,192	5,304
Depreciation & Amortisation	647	746	798	838	880
EBIT	3,990	2,794	4,299	4,497	4,596
Net Finance (Expense)/Income	(61)	(98)	(95)	(105)	(91)
Other items	288	494	596	623	664
Associates & JVs	11	17	0	0	0
Profit Before Tax	3,929	2,697	4,204	4,392	4,505
Taxation	(67)	55	9	88	113
Profit After Tax	3,995	2,641	4,195	4,304	4,392
Non-controlling Interest	(28)	0	0	0	0
Net Income, reported	4,153	2,864	4,347	4,424	4,522
Net Income, adj.	3,968	2,641	4,195	4,304	4,392

Source: PSR est.

FYE Dec	CY10	CY11	CY12	CY13F	CY14F
Balance Sheet (Bt mn)					
Cash	9,207	9,513	12,782	12,500	13,513
ST Investments					
Accounts Receivables	6,223	6,859	7,027	7,112	7,294
Inventories	6,468	5,952	5,466	5,822	5,979
Others	916	944	852	937	1,030
Total current assets	22,814	23,269	26,127	26,371	27,816
PPE	4,225	4,724	4,984	5,224	5,339
Intangibles	727	753	688	672	599
Associates & JVs	545	0	0	0	0
Others	374	304	406	414	423
Total non-current assets	6,797	6,630	6,948	7,167	7,206
Total Assets	29,611	29,899	33,075	33,538	35,022
Short term loans	1,297	1,278	905	1,019	1,017
Accounts Payables	7,455	7,173	8,144	7,278	7,473
Others	434	453	315	299	285
Total current liabilities	9,186	8,904	9,365	8,596	8,775
Long term loans	226	226	259	233	209
Others	902	59	88	93	98
Total liabilities	10,313	10,040	10,578	9,816	10,002
Non-controlling interest	87	0	0	0	0
Shareholder Equity	19,210	19,859	22,497	23,722	25,020

Cashflow Statements (Bt mn)

CFO					
PBT	4,114	2,919	4,357	4,512	4,635
Adjustments	937	1,334	858	779	999
Cash from ops before WC changes	5,003	3,916	5,276	5,339	5,629
WC changes	(2,648)	(943)	1,039	(1,618)	(532)
Cash generated from ops	2,405	3,113	6,508	3,916	5,285
Taxes paid, net	(96)	(92)	(50)	(73)	(98)
Interest paid	(56)	(90)	(85)	(120)	(106)
Cashflow from ops	2,252	2,931	6,373	3,723	5,082
CFI					
CAPEX, net	(1,437)	(1,263)	(1,152)	(1,057)	(965)
Investments in subs & associates					
Cashflow from investments	(1,213)	(568)	(1,226)	(1,094)	(1,004)
CFF					
Share issuance					
Loans, net of repayments	(174)	(124)	(359)	138	20
Dividends to shareholders & capital reduction	(1,871)	(2,121)	(1,497)	(2,994)	(2,999)
Others					
Cashflow from financing	(2,045)	(2,245)	(1,856)	(2,856)	(2,979)
Net change in cash	(1,376)	133	3,167	(364)	948
Effects of exchange rates	(371)	14	(125)	(137)	(151)
CCE, end	9,207	9,513	12,782	12,500	13,513

Source: PSR est.

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