Media Release:

Delta Electronics Inc. Upgraded To 'twAA+' On Strong EBITDA Growth; Outlook Stable

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(Editor's note: We are republishing this article to correct a typographical error in the forecast summary table. The correction has no rating impact.)

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Rating Action Overview

- Delta Electronics Inc.'s strong technology capability should help sustain its significant market share for power supply and thermal management solutions amid rapid demand growth from the global AI infrastructure buildout.
- In addition, an improving EBITDA and strong free operating cash flow should provide Delta with an enhanced capacity to expand its net cash buffer and endure performance volatility over the next few years.
- We have raised our long-term issuer credit rating on Delta to 'twAA+' from 'twAA' and at the same time affirmed our 'twA-1+' short-term issuer credit rating on the company.
- The stable rating outlook reflects our view that Delta will maintain its strong competitive position in power supply and thermal management for AI while sustaining a substantial net cash buffer over the next one to two years.

Rating Action Rationale

The upgrade reflects our expectation that material growth in Delta's EBITDA can sustain a net cash position and buffer against potential market volatility. We believe Delta is well-positioned to capitalize on the rapid growth in demand for advanced power supply and thermal management solutions by leveraging its strategic relationships with major cloud service providers and through sustained R&D investments. In our view, the escalating power consumption and computing density of AI servers will necessitate critical upgrades to server-level components and data center infrastructure, which are key areas for Delta's products. We now forecast Delta's EBITDA will expand significantly to new Taiwan dollar (NT$) 150 billion–NT$170 billion in 2026 and NT$200 billion–NT$230 billion in 2027. This compares with NT$111.8 billion in 2025. This growth trajectory is materially above our previous forecast and should enable Delta to generate robust free operating cash flow over the next new two years.

Delta's robust product development capabilities should bolster its profitability and leading position in advanced applications. The rapid product development cycle for AI servers and high costs associated with failures in power delivery or thermal management at expensive AI data centers have increased the switching cost for Delta's clients to find new suppliers. This allows Delta to strengthen its long-standing relationships with its top-tier cloud service provider clients through

its strong capability to provide leading technologies and engineering services in the early stage of AI server and data center development. This includes high-voltage direct current and liquid cooling solutions. We believe these factors will sustain Delta's strong market position, despite its clients' preference for supplier diversification.

We also expect the increasing contribution from advanced solutions and rapidly expanding revenue scale to sustain Delta's enhanced profitability over the next one to two years. We project the company's EBITDA margin will increase significantly above our previous estimates and reach 21.5%–23.0% in 2026–2027 from 20.1% in 2025. Nonetheless, rising material and component costs could introduce short-term pressure on Delta's margins and increase the competition pressure for its legacy products. In addition, pricing pressure will be more pronounced in standardized product segments due to intensified competition as designs mature and customers qualify alternative suppliers. However, we believe the high cost passthrough for advanced products and the company's growing concentration in advanced AI-related solutions can support its margin expansion over 2026-2027.

Growing cash flow can support elevated capex and working capital needs while strengthening the net cash buffer. We project Delta's capital expenditure (capex) will rise to approximately NT$80 billion in 2026 and remain elevated at NT$83 billion–NT$88 billion in 2027. Capacity expansions in Taiwan, Thailand, China, and the U.S., and the development of a new manufacturing base in Malaysia will drive this increase. Component shortages, rapidly evolving product specifications, and potential delays in data center construction could increase working capital volatility. Nonetheless, we consider these risks as manageable for Delta and we believe Delta's high margins and rapid EBITDA expansion provide a significant cushion to absorb its working capital needs for fluctuating inventory and receivables. Additionally, we believe Delta will maintain a disciplined approach to acquisitions and shareholder distributions over the next few years. As a result, we forecast the company will generate sustainable discretionary cash flow to expand its net cash buffer over the same period.

AI investment volatility, rapid technological shifts, and intensifying competition are key risks for our forecast. A deceleration in AI infrastructure spending driven by potential capex deferrals or underwhelming returns on hyperscalers' AI investments could temper growth forecasts. Furthermore, intensifying competition within high-growth segments necessitates sustained R&D intensity and rapid product qualification to defend market share and pricing power. Any failure by Delta to maintain its technological leadership could compress its margins. In addition, operational bottlenecks, such as power constraints or component shortages, pose risks to data center commissioning timelines, which could negatively affect Delta's revenue. A material slowdown in shipments could also lead to a pile up in inventory. Nonetheless, Delta's strengthened capital structure should provide sufficient resilience to absorb moderate earnings and cash flow volatility over the next few years, even under a sharp slowdown in AI infrastructure investments.

Weaker performance at Delta's mobility and automation businesses won't materially dampen profitability. We anticipate continued margin compression in the electric vehicle (EV) powertrain segment over the next one to two years, driven by subdued EV adoption and intensifying competition. The automation segment also faces a slow recovery and pricing pressure over the same period. However, we believe growing AI-related revenue at the company's power electronics and infrastructure segments will provide a sufficient buffer to more than offset these weaknesses in other divisions. Indeed, we forecast the power electronics and infrastructure segment will contribute nearly all of the company's operating profits in 2026-2027.

Outlook

The stable rating outlook reflects our view that Delta can sustain its strong market position in AI server and data center power supply and thermal management applications over the next one to two years. We believe the company will expand its EBITDA scale and sustain improved profitability over the same period, driven by robust growth from advanced power and thermal management solutions. This could underpin sustainable positive free operating cash flow and a strengthened net cash position during the period despite elevated capex for production site diversification and strategic merger and acquisition activity to enhance its business portfolio.

Downward scenario

We may lower the rating on Delta if the ratio of debt to EBITDA deteriorates to close to 1x for an extended period, or if its revenue and profitability weaken substantially such that its EBITDA margin falls close to 15%. This may occur if:

- Delta fails to maintain its technology leadership and market position in advanced power supply and thermal management solutions for critical applications with a material market share loss or significant pricing compression under stronger buyer power, or faces continued weakness in its automation and mobility segments due to intensifying competition and tepid end-market demand; or
- Delta undertakes large-scale acquisitions exceeding our expectations or adopts a more aggressive stance regarding capex or shareholder returns than we assume in our base case.

Upward scenario.

We may raise the rating on Delta if:

- The company strengthens its product portfolio toward higher value-added solutions, and significantly expands its market share and profitability in the EV, automation, and infrastructure segments, such that Delta enhances its revenue and EBITDA scale significantly with more meaningful business diversity; while at the same time,
- Delta maintains a strong net cash position, which might be achieved through prudent capex, measured cash dividend distributions, and disciplined working capital management and acquisitions, which support sustainable improvement in its positive discretionary cash flow.

Our Base Case Scenario

- S&P Global Ratings projects global GDP growth at 3.3% in 2026 and 2027, following a 3.5% expansion in 2025.
- Delta's revenue to expand by 33%-36% in 2026 and 23%-28% in 2027, compared with 31.8% growth in 2025.
- Power electronics revenue to rise by 40%-45% in 2026 and 28%-33% in 2027, following about 25% growth in 2025, underpinned by robust demand for power supply and thermal management components that are essential for AI servers and data centers.
- Mobility revenue to contract by 10%-15% in 2026, following a 16% decline in 2025, primarily due to persistent macroeconomic headwinds in the U.S. and European markets. We anticipate a further mid-single-digit decline in 2027, because a meaningful recovery in end-market demand remains elusive.
- Automation revenue to grow by 10%-15% in 2026 and 5%-10% in 2027, supported by strengthening industrial automation demand. While expansion in Southeast Asia could offset sluggish demand in China, the building automation sub-segment may remain subdued due to weak end-market demand and heightened competition.

- Infrastructure revenue to maintain strong growth momentum at 38%-43% in 2026 and 23%-28% in 2027, following an 82% surge in 2025, fueled by intensive data center construction and thermal management requirements.
- Gross margin before depreciation and amortization to improve to 40.0%-40.3% in 2026 and 40.7%-41.2% in 2027, driven by an increasing revenue mix of advanced products and sustained demand for AI-related power and thermal solutions.
- Selling, general and administrative expense ratio to moderate to 18%-19% in 2026-2027, compared with 21% in 2024 and 19% in 2025, reflecting enhanced scale economies.
- Capex to escalate to NT$79 billion-NT$82 billion in 2026 and NT$83 billion-NT$88 billion in 2027, primarily to fund global capacity expansion, including a new production site in Malaysia and ongoing buildouts in Taiwan, Thailand, the U.S., and China.
- Delta will likely continue pursuing strategic small-to-medium-sized M&As to enhance its business portfolio, with annual outlays of around NT$6 billion through 2027.
- Stable cash dividend payout at approximately 50% in 2026-2027.
- We net 98.4% of Delta's cash and liquid investments against its debt.

Key metrics

Delta Electronics Inc.--Taiwan Ratings Corp. forecast summary

(Mil. NT$)	2023a	2024a	2025a	2026e	2027f	2028f
Revenue	401,226.5	421,147.6	554,885.2	748,379.7	934,897.4	1,079,224.4
EBITDA (reported)	62,539.6	72,667.9	111,771.2	163,598.7	210,243.0	246,666.2
Plus/(less): Other	45.9	23.8	14.6	14.6	14.6	14.6
EBITDA	62,585.5	72,691.7	111,785.8	163,613.3	210,257.6	246,680.9
Less: Cash interest paid	(952.7)	(1,471.5)	(1,515.0)	(2,487.7)	(2,249.6)	(1,665.6)
Less: Cash taxes paid	(7,026.6)	(8,835.8)	(8,982.6)	(17,936.7)	(26,710.0)	(34,530.3)
Funds from operations (FFO)	54,606.2	62,384.5	101,288.2	143,188.9	181,298.0	210,485.0
Cash flow from operations (CFO)	70,747.6	73,112.9	98,684.2	116,439.4	163,051.9	197,716.3
Capital expenditure (capex)	27,829.8	38,223.5	48,260.6	80,000.0	85,000.0	88,000.0
Free operating cash flow (FOCF)	42,917.9	34,889.4	50,423.6	36,439.4	78,051.9	109,716.3
Debt (reported)	57,349.4	64,718.8	76,243.8	76,640.8	59,701.1	41,245.3
Plus: Lease liabilities debt	2,555.3	2,217.6	2,496.0	2,809.4	3,162.1	3,559.1
Plus: Pension and other postretirement debt	3,456.8	3,635.6	3,137.1	3,137.1	3,137.1	3,137.1
Less: Accessible cash and liquid Investments	(90,051.0)	(118,963.5)	(152,263.4)	(152,553.6)	(157,011.6)	(176,566.0)
Debt	--	--	--	--	--	--
Cash and short-term investments (reported)	92,360.0	121,639.5	154,896.6	155,000.0	159,529.5	179,397.4
Adjusted ratios						
Debt/EBITDA (x)	--	--	--	--	--	--
FFO/debt (%)	N.M.	N.M.	N.M.	N.M.	N.M.	N.M.
Annual revenue growth (%)	4.4	5.0	31.8	34.9	24.9	15.4
EBITDA margin (%)	15.6	17.3	20.1	21.9	22.5	22.9

All figures are adjusted by Taiwan Ratings Corp., unless stated as reported. Figures for the forecast period are based on Taiwan Ratings Corp.'s base-case scenario. a--Actual. e--Estimate. f--Forecast. NT$--new Taiwan dollar. N.M.--Not meaningful.

Liquidity: Exceptional

The short-term rating is 'twA-1+'. We believe Delta has exceptional liquidity to meet its needs over the 24 months ending Sept. 30, 2028. We forecast the company's ratio of liquidity sources to liquidity uses at 2.1x-2.3x in the 12 months ending Sept. 30, 2027, and in the subsequent 12 months. We also estimate the company will have positive liquidity sources minus uses even if its forecast EBITDA declined by 50%.

In our view, Delta can absorb high-impact, low-probability events without refinancing, given its net cash position. We also believe the company has solid banking relationships and a generally high credit standing to support its financial flexibility. This is demonstrated by the company's abundant committed bank credit facilities, successive corporate bond issuance, and large undrawn long-term credit lines. Delta's debts do not carry financial covenants.

Principal liquidity sources

- Cash and short-term investments of NT$213.6 billion as of the end of September 2026.
- Funds from operations of NT$170 billion-NT$190 billion for the 12 months ending Sept. 30, 2027, and NT$190 billion-NT$220 billion for the subsequent 12 months.
- Undrawn committed long-term credit facilities of NT$49.5 billion maturing beyond Sept. 30, 2027, and NT$9.3 billion maturing beyond Sept. 30, 2028.

Principal liquidity uses

- Long-term debt maturity plus short-term debt repayment of about NT$39.5 billion in the 12 months ending Sept. 30, 2027, and about NT$18.5 billion in the subsequent 12 months.
- Working capital outflows of NT$15 billion-NT$25 billion annually in the 24 months ending September 2028.
- Capex of NT$80 billion-NT$90 billion annually for the 24 months ending Sept. 30, 2028.
- Cash dividend payout of NT$48 billion-NT$53 billion in 2027 and NT$62 billion-NT$67 billion in 2028.

Ratings Score Snapshot

Issuer Credit Rating: twAA+/Stable/twA-1+

Note: All scores below are in comparison with global obligors.

Business risk: Satisfactory

- Country risk: Moderately high risk
- Industry risk: Moderately high risk
- Competitive position: Satisfactory

Financial risk: Minimal

- Cash flow/Leverage: Minimal

Anchor: twaa+

Modifiers:

- Diversification/Portfolio effect: Neutral/Undiversified
- Capital structure: Neutral
- Financial policy: Neutral
- Liquidity: Exceptional

- Management and governance: Neutral
- Comparable rating analysis: Neutral

Stand-alone credit profile: twaa+

Related Criteria

- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- Criteria | Corporates | General: Sector-Specific Corporate Methodology - July 07, 2025
- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Upgraded

	To	From
Delta Electronics Inc.		
Issuer Credit Rating	twAA+/Stable/twA-1+	twAA/Positive/twA-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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