Media Release:

Delta Electronics Inc. Ratings Affirmed At 'twAA/twA-1+' On Strong Profitability; Outlook Stable

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Rating Action Overview

- We believe **Delta Electronics Inc.**'s good technology capabilities and ability to provide advanced power supply and thermal solutions will facilitate faster revenue growth and a modest increase in its EBITDA margin in 2025-2027.
- Delta's strengthening free operating cash flow could sustain the company's robust capital structure over the same period, despite likely volatility under a rapidly evolving AI segment.
- We therefore affirmed our 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on Delta.
- The outlook remains stable to reflect our view that Delta could strengthen its EBITDA through improving profitability in 2025-2027, supported by its well-established client relationships and effective R&D investments.

Rating Action Rationale

The rating affirmation reflects our view of Delta's improving revenue and EBITDA driven by rising AI-related demand for power solutions. Delta's good technology capability and well-established relationships with major clients could enable the company to better reap AI hardware growth than its peers. Delta has proven its ability to timely deliver higher-end power supply and thermal management solutions that meet clients' requirements for the most advanced AI servers. We forecast the revenue contribution from AI-related components and related systems will increase to above 20% in 2025, from around 15% in 2024.

A comprehensive product portfolio and continued R&D investments could sustain Delta's technology strength. Delta's R&D strength and product diversity alleviate competition on leading-edge AI-related power supply and thermal management solutions. This will likely support modest margin improvement in 2025-2027, in our view. Delta offers a wider range of advanced solutions than its competitors, which help the company capture business opportunities across the AI value chain. New technologies including grid-to-chip power supply solutions could enable Delta to further penetrate the data center market, which is an area with relatively strong client retention.

Rapidly evolving AI technology and markets could raise uncertainty for our forecast. Delta's rising exposure to the rapidly evolving AI server market could still induce cash flow and margin volatility. This could arise from rapid changes in the power supply and thermal design of AI servers and data centers, along with clients' supplier diversification among a relatively concentrated client base. In addition, end AI applications could develop slower than we expect and without strong monetization models. This could lead to clients' weaker capital expenditure (capex) and thus less demand for AI hardware.

In addition, there remains significant volatility associated with Delta's electric vehicle component business and legacy power supply businesses for IT equipment and consumer electronics. Furthermore, increasing competition could elevate pricing pressure, particularly in the liquid cooling thermal management segment where competition is more intense than that in the power supply segment. We forecast competitors with similar technology and financial resources will invest aggressively to compete for a leading market position in this emerging market which has strong growth prospects.

Improving free operating cash flow (FOCF) largely underpins a still-strong balance sheet in 2025-2027. We forecast Delta's annual FOCF will increase to NT$50 biliion-NT$60 billion in 2026-2027 from NT$35 billion-NT$40 billion in 2024-2025. This is despite our view of the company's annual capex remaining elevated at NT$30 billion to support global capacity diversification. As a result, we believe Delta will likely maintain a net cash position with a slightly larger credit buffer over the same period.

Delta's liquidity buffer has strengthened under its improving operating cash flow. We forecast Delta's operating cash flow will improve to NT$70 billion-NT$75 billion in 2025 and NT$80 billion-NT$85 billion in 2026, compared with NT$73 billion in 2024. In addition, the company has an expanded cash balance of NT$144.4 billion at the end of March 2025, up from NT$121.6 billion at the end of 2024. We believe these factors provide robust liquidity coverage and will increase the company's ratio of liquidity sources to uses to 2.4x or higher over the 24 months ending March 2027. We have therefore revised our liquidity assessment for Delta to exceptional from strong.

Outlook

The stable rating outlook reflects our view that Delta could generate faster growth with improving profitability over the next two years. This is mainly supported by rising demand for advanced power supply and thermal management solutions for AI servers and data centers. In addition, we believe the company will maintain a net cash position with a larger credit buffer during the period, underpinned by sustainable positive operating cash flow generation. This is despite Delta's capex remaining elevated over the same period.

Upward scenario

We could raise the rating on Delta if:

- The company significantly strengthens its market position in advanced power supply and thermal management solutions for growing segments such as AI servers and data centers, or
- Delta strengthens its solution offering which materially improves its business portfolio outside power electronics such that Delta can significantly increase EBITDA with improving profitability relatively to its peers, and at the same time,
- Maintain the ratio of debt to EBITDA consistently below 1x, which could be achieved through prudent capex, acquisitions, and cash dividend payouts that enable Delta to sustain persistent discretionary cash flow.

Downward scenario

We may lower the rating on Delta if the debt-to-EBITDA ratio deteriorates to above 1x for an extended period, or intense competition and stronger buyer power trigger significant margin erosion that weakens profitability. 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 such as AI server and data center infrastructure, or fails to develop new businesses including electric vehicles, building automation, or energy storage in a profitable manner; or
- Delta takes on large scale acquisitions that exceed our expectation or pursues more aggressive capex or shareholder friendly action than under our base case.

Our Base Case Scenario

- S&P Global's projection for world GDP growth of 2.9% in 2025 and 2026, and 3.3% in 2027, following 3.3% growth in 2024.
- Delta's revenue to grow by around 15% in 2025 and 8%-9% annually in 2026-2027, following 5% growth in 2024.
- Delta's power electronics revenue could rise 10% annually in 2025-2027, following 9.8% growth in 2024. Robust demand for power supply and thermal management components used for AI server and data centers will be the primary growth driver.
- Delta's mobility revenue could decline by around 3% in 2025, following 1% decline in 2024. This is mainly due to weaker demand in the U.S. and Europe and lingering macroeconomic headwinds. The segment's revenue growth could remain subdued at around 1% annually in 2026-2027.
- Delta's automation revenue could rise by around 8% in 2025 and around 3% annually in 2026-2027, compared with 3.5% decline in 2024. Recovering China market and growing south-east Asia market could support growth in Delta's industrial automation business. Meanwhile, the company's building automation business momentum could slightly pick up.
- Delta's infrastructure revenue to materially grow by 42% in 2025 and around 10% annually in 2026-2027 compared with 2.1% growth in 2024. Growing demand for data center power infrastructure will be the key growth driver.
- Gross margin will improve to close to 39% in 2025, thanks to robust demand for power supply and thermal management solutions used in AI server and data center infrastructure, compared with 38.4% in 2024. Gross margin could improve and sustain at above 39% in 2026-2027 because the revenue contribution from advanced applications will continue to rise.
- Expense ratio to remain at 20%-21% in 2025-2027, mainly reflecting Delta's continuous R&D investments to support technology advancement and new business development.
- Capex will remain elevated at NT$30 billion annually in 2025-2027, mainly for capacity expansion outside China.
- Delta will likely continue to undertake small to medium size mergers and acquisitions to enhance its business portfolio, totaling NT$5 billion annually in 2025-2027.
- Cash dividend payout to sustain at 50% in 2025-2027, slightly above the 45% in 2024.
- We net 97.8% of Delta's cash and liquid investments with debt.

Note: GDP growth forecasts are from the latest Credit Conditions Committee. S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty, magnified by ongoing regional geopolitical conflicts. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly..

Delta Electronics Inc. --Taiwan Ratings Corp. Forecast Summary

Industry sector: High tech equipment

(Mil. NT$)	2022a	2023a	2024a	2025e	2026f	2027f
Revenue	384,443	401,227	421,148	487,866	528,824	573,720
EBITDA (reported)	60,375	62,540	72,668	89,965	99,828	110,771
Plus/(less): Other	75	46	24	24	24	24
EBITDA	60,450	62,585	72,692	89,989	99,851	110,795
Less: Cash interest paid	(487)	(953)	(1,471)	(1,719)	(985)	(352)
Less: Cash taxes paid	(6,110)	(7,027)	(8,836)	(10,925)	(13,383)	(15,122)
Funds from operations (FFO)	53,854	54,606	62,384	77,345	85,483	95,322
Cash flow from operations (CFO)	46,177	70,748	73,113	70,900	81,786	91,136
Capex	21,824	27,830	33,485	35,000	30,000	30,000
Free operating cash flow (FOCF)	24,353	42,918	39,628	35,900	51,786	61,136
Debt (reported)	50,265	60,806	68,354	62,151	18,435	12,132
Plus: Lease liabilities debt	2,303	2,555	2,218	2,218	2,218	2,218
Less: Accessible cash and liquid Investments	(61,724)	(90,051)	(118,963)	(125,334)	(104,141)	(125,537)
Plus/(less): Other	13	13	0	0	0	0
Debt	--	--	--	--	--	--
Cash and short-term investments (reported)	63,306	92,360	121,640	128,153	106,483	128,361
Adjusted ratios						
Debt/EBITDA (x)	--	--	--	--	--	--
FFO/debt (%)	N.M.	N.M.	N.M.	N.M.	N.M.	N.M.
Annual revenue growth (%)	22.2	4.4	5.0	15.8	8.4	8.5
EBITDA margin (%)	15.7	15.6	17.3	18.4	18.9	19.3

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 issuer credit rating is 'twA-1+'. We believe Delta has exceptional liquidity to meet its needs over the next 24 months. We forecast the company's ratio of liquidity sources to liquidity uses at 3.2x-3.3x in the 12 months ending January 2025, and 2.4x-2.5x in the following 12 months. We estimate the company will have positive liquidity sources minus uses even if its forecast EBITDA declined by 50%.

We believe 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 generally high credit standing to support its financial flexibility. This is demonstrated by Delta's abundant committed bank credit facilities and successive corporate bond issuance and large amount of undrawn long-term credit lines. Delta's debts do not carry financial covenants.

Principal liquidity sources:

- Cash and short-term investments of NT$144.4 billion as of the end of March 2025.
- Funds from operations of NT$80 billion-NT$85 billion in 2025 and NT$85 billion-NT$90 billion in 2026.
- As of the end of March 2025, Delta had undrawn committed long-term credit facilities of NT$27.1 billion maturing beyond the next 24 months.

Principal liquidity uses:

- Long-term debt maturity plus short-term debt repayment of about NT$12.8 billion ending March 31, 2026, and NT$43.7 billion in the subsequent 12 months.
- Working capital outflows of about NT$7 billion in 2025 and around NT$6 billion in 2026.
- Capex of NT$30 billion-NT$35 billion annually in 2025 and 2026.
- Mergers and acquisitions of NT$5 billion annually in 2025 and 2026.
- Cash dividend payout of around NT$20 billion in 2025 and NT$25 billion-NT$30 billion in 2026.

Ratings Score Snapshot

Delta Electronics Inc.		
	To	**From**
Issuer Credit Rating	twAA/Stable/twA-1+	twAA/Stable/twA-1+
Business risk	Satisfactory	Satisfactory
Country risk	Moderately High	Moderately High
Industry risk	Moderately High	Moderately High
Competitive position	Satisfactory	Satisfactory
Financial risk	Modest	Modest
Cash flow/Leverage	Modest	Modest
Anchor	twaa	twaa
Modifiers		
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Neutral (no impact)	Neutral (no impact)
Financial policy	Neutral (no impact)	Neutral (no impact)
Liquidity	Exceptional (no impact)	Strong (no impact)
Management and governance	Neutral (no impact)	Neutral (no impact)
Comparable ratings analysis	Neutral (no impact)	Neutral (no impact)
Stand-alone credit profile (SACP)	twaa	twaa
Note: All scores above are in comparison with global obligors.		

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- Criteria | Corporates | General: Sector-Specific Corporate Methodology - April 04, 2024
- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Ratings Affirmed	
Delta Electronics Inc.	
Issuer Credit Rating	twAA/Stable/twA-1+