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Media Release:

Delta Electronics Inc. Outlook Revised To Positive On Strengthening Profitability; 'twAA/twA-1+' Ratings Affirmed

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Rating Action Overview

- **Delta Electronics Inc.'s** strong technology capability in power supply and thermal management should support its high market share in power solutions for rapidly growing global AI infrastructure. This should significantly grow its revenue and EBITDA over the next two to three years.
- The resultant strong free operating cash flow (FOCF) will likely enable the company to grow its net cash position despite high capital expenditure (capex). Growing competition and a substantial slowdown in AI investments are risks to our forecasts.
- We affirmed our 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on Taiwan-based Delta.
- The positive rating outlook reflects our view that Delta could grow its financial buffer for business volatility over the next one to two years.

Rating Action Rationale

The outlook revision reflects our view that Delta could expand its profitability over the next two years. The company's effective research and development (R&D) investments and close relationship with major cloud service providers supports its market position amid robust AI infrastructure investments. The company is able to seal early deals in the development of power and thermal management solutions. Rising contributions from advanced AI applications could help Delta have strong revenue growth over 2025-2027, and EBITDA margins of 20%-22%, up from 17.3% in 2024. Accordingly, we forecast EBITDA will materially expand to about new Taiwan dollar (NT$) 110 billion in 2025 and NT$130 billion-NT$150 billion annually in 2026-2027, compared with NT$72.7 billion in 2024.

Delta's strengthened EBITDA and cash flow will support Delta's net cash position and provide a buffer for business volatility and high capex. We forecast the company's FOCF will rise to NT$60 biliion-NT$80 billion in 2026-2027 from close to NT$40 billion annually in 2024-2025. This is despite elevated capex of NT$40 billion annually to support capacity diversification globally.

In addition, we forecast Delta will remain disciplined while pursuing acquisitions to strengthen its business portfolio. As a result, the company could expand its net cash position during this period.

Technology evolution, competition, and a material slowdown in AI investments are risks to Delta's profitability. The company is exposed to technology risk amid the constantly evolving power and cooling architecture for AI servers and data centers. Delta could face significant revenue loss if it fails to predict technology evolution or develop competitive technology in time. The impact on the company's AI server power supply module business from NVIDIA Corp.'s change in its board-level power design for its GB200 series semiconductor chips highlights such risk.

Competition for power and thermal management solutions for AI infrastructure is likely to intensify, in our view. Major cloud service providers could look to diversify their suppliers if the power and thermal architecture becomes more mature and lower costs. This would erode Delta's current high market share. Limited technology differentiation could amplify such risk. Delta’s ability to maintain its R&D effectiveness and introduce solutions with higher energy efficiency ahead of peers will therefore be important.

In addition, Delta's revenue and EBITDA growth over the past two years from very aggressive AI infrastructure investments could reverse if its clients’ investments cannot be monetized as expected. That said, AI will likely remain a growing end application for Delta's products in the long term, despite likely high business volatility.

Delta's weaker electric vehicle and automation businesses could drag overall profitability. We believe the company will continue to face challenges in enhancing the competitiveness of its automation and EV businesses over the next one to two years. This is due to rising competition, Delta's limited business scale with narrow product and solution offerings, and weak end demand. These businesses will weigh on the company's overall profitability and competitive position.

Outlook

The positive rating outlook reflects our view that Delta is likely to sustain its strong market position in AI infrastructure power and thermal management solutions over the next 12-24 months. We expect the company to materially grow its EBITDA scale and profitability over the period on the back of strong demand growth.

In addition, we believe Delta can sustain a net cash position and expand the credit buffer over the next two years, underpinned by sustainably positive operating cash flow. This is despite the company's capex remaining elevated and its ongoing pursuit of mergers and acquisition (M&A) to enhance its business portfolio.

Upward scenario

We could raise the rating on Delta if the company sustains its enhanced profitability and grows its credit buffer by materially expanding its EBITDA with consistently positive FOCF, despite volatility in AI investments. This could be achieved if the company sustains its market position in advanced power supply and thermal management applications such as AI servers and data centers, enabling it to substantially grow its revenue and profit margin.

We could also upgrade Delta if:

- The company further strengthens its solution offering and materially enhances its business portfolio outside of power and thermal management solutions for IT and AI applications. This would allow significant growth in EBITDA from those divisions; and
- The company maintains its prudent financial policy by sustaining a prudent M&A strategy and dividend policy that facilitates a sustainably positive discretionary cash flow.

Downward scenario

We may revise the outlook on Delta to stable if the company fails to sustain its profitability and materially expand its EBITDA scale and credit buffer. This could be possibly due to:

- The company failing 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, leading to a material deterioration in its revenue and margins associated with AI applications;
- The company facing intense competition at its EV and automation divisions, as well as the power electronics business for mature applications, such that overall profitability weakens; or
- The company taking on more aggressive M&As or dividends, leading to materially weaker cash flow for debt repayments.

Our Base Case Scenario

- S&P Global Ratings' projection for world GDP growth of 2.8% in 2025, 2.9% in 2026 and 3.4% in 2027, following a 3.3% growth in 2024.
- Delta's revenue to grow by about 30% in 2025 and 10%-15% annually in 2026-2027, following a 5% growth in 2024.
- Power electronics revenue to grow by 20%-25% in 2025 and 10%-15% annually in 2026-2027, following a 9.1% growth in 2024. Robust demand of power supply and thermal management components used for AI servers and data centers will remain the primary growth driver.
- Mobility revenue to decline by 15%-20% in 2025, following a 5% growth in 2024. This is mainly due to the weaker demand in the U.S. and Europe market amid the lingering macroeconomic headwinds. The segment's revenue growth could remain subdued at about 2% annually in 2026-2027.
- Automation revenue could grow by 3%-5% in 2025 and around 3% annually in 2026-2027, compared with a 10% decline in 2024. Growing business in southeast Asia will compensate weak demand in China. Meanwhile, the company's building automation business momentum could remain subdued amid the macroeconomic uncertainties.
- Infrastructure revenue to materially expand by 80%-90% in 2025 and by 15%-20% annually in 2026-2027, compared with 4.1% growth in 2024. Robust demand from thermal management solutions for data centers will remain the key growth driver.
- Gross margin will improve to close to 40% 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 40% in 2026-2027 as revenue contributions from advanced applications continue to rise.
- Expense ratio to moderately improve to 19%-20% in 2025-2027, compared with 21% in 2024. This mainly reflects Delta's expanding operating scale.

- Capex to remain elevated at NT$40 billion annually in 2025-2027, mainly for its global capacity expansion.
- Delta will likely continue to undertake small to medium size M&As to enhance its business portfolio, with a total amount of NT$5 billion annually in 2025-2027.
- Cash dividend payout to stay at 50% in 2025-2027, slightly higher than 45% in 2024.
- We net 98.3% 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	545,170	624,803	691,370
EBITDA (reported)	60,375	62,540	72,668	110,748	130,814	148,022
Plus/(less): Other	75	46	24	24	24	24
EBITDA	60,450	62,585	72,692	110,772	130,838	148,046
Less: Cash interest paid	(487)	(953)	(1,471)	(1,972)	(1,764)	(1,154)
Less: Cash taxes paid	(6,110)	(7,027)	(8,836)	(14,241)	(18,460)	(21,202)
Funds from operations (FFO)	53,854	54,606	62,384	94,559	110,615	125,690
Cash flow from operations (CFO)	46,177	70,748	73,113	79,653	102,412	119,110
Capex	21,824	27,830	33,485	40,000	40,000	40,000
Free operating cash flow (FOCF)	24,353	42,918	39,628	39,653	62,412	79,110
Debt (reported)	50,265	60,806	68,354	86,706	42,989	31,186
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)	(153,851)	(135,605)	(158,954)
Plus/(less): Other	13	13	0	--	--	--
Debt	--	--	--	--	--	--
Cash and short-term investments (reported)	63,306	92,360	121,640	156,462	137,906	161,651
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	29.4	14.6	10.7
EBITDA margin (%)	15.7	15.6	17.3	20.3	20.9	21.4

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 2.4x-2.5x for the 12 months ending Sep. 30, 2026, and 2.1x-2.2x in the following 12 months. We estimate the company will have positive liquidity sources minus uses even if its EBITDA declines by 50%.

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 that supports its financial flexibility. This is evidenced from its abundant committed bank credit facilities, successive corporate bond issuances, 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$142.3 billion as of the end of September 2025.
- Funds from operations of NT$100 billion-NT$110 billion in 2025 and NT$120 billion-NT$130 billion in 2026.
- As of the end of September 2025, Delta had undrawn committed long-term credit facilities of NT$29.5 billion maturing beyond the next 24 months.

Principal liquidity uses:

- Long-term debt maturities plus short-term debt repayment of about NT$30.9 billion in the 12 months ending Sept. 30, 2026, and about NT$42 billion in the subsequent 12 months.
- Working capital outflows of NT$10 billion-NT$15 billion in 2025 and NT$8 billion-NT$10 billion in 2026.
- Capex of about NT$40 billion annually in 2025 and 2026.
- M&As of NT$5 billion annually in 2025 and 2026.
- Cash dividend payout of NT$25 billion-NT$30 billion in 2025 and NT$35 billion-NT$40 billion in 2026.

Ratings Component Scores

Issuer Credit Rating: twAA/Positive/twA-1+
Note: All scores below are in comparison with global obligors.

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

Financial risk: Modest
- Cash flow/Leverage: Modest

Anchor: twaa

Modifiers
- Diversification/Portfolio effect: Neutral (No impact)
- Capital structure: Neutral (No impact)
- Financial policy: Neutral (No impact)
- Liquidity: Exceptional (No impact)

- Management and governance: Neutral (No impact)
- Comparable rating analysis: Neutral (No impact)

Stand-alone credit profile: twaa

Related Criteria & Research

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology - July 07, 2025
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- 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
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Ratings Affirmed; Outlook Revision

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