

# Advantech (2395.TW/2395 TT)

## Geared up for solid growth in 2025

### Outperform · Maintained

Price as of July 31 (NT\$)	346.5
12M target price (NT\$)	457.0
Previous target price (NT\$)	480.0
Revised down (%)	4.8
Upside (%)	31.9

#### Key message

- 2Q24 EPS beat our forecast.
- 3Q24 guidance is lower than expected, but revenue to rebound from the trough, possibly in 2025.
- 2025F sales to stage solid rebound on significant contribution from edge AI.

#### Trading data

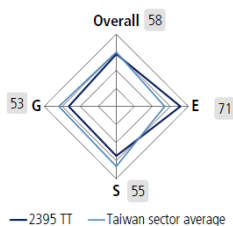
Mkt cap (NT\$bn/US\$mn)	299.1 / 9,178
Outstanding shares (mn)	863
Foreign ownership (mn)	351.0
3M avg. daily trading (mn)	0.82
52-week trading range (NT\$)	330.5 –407.0

Performance	3M	6M	12M
Absolute (%)	-8.8	2.7	-11.5
Relative (%)	-17.6	-21.4	-41

#### Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	3.32A	3.17A	4.10A	3.27A
2023	3.80A	3.51A	3.01A	2.67A
2024	2.32A	2.46A	2.93F	3.34F

#### ESG score card



Source: TEJ

#### Event

Advantech held its 2Q24 analyst meeting.

#### Impact

**2Q24 EPS beat.** 2Q24 sales fell 14% YoY to NT\$14.6bn, but gross margin edged up 0.5ppt QoQ to 40.5%, beating our forecast of 40.0%, mainly thanks to a higher sales weighting for industrial IoT (IIoT) business, which is margin-accretive. However, operating profit arrived at only NT\$2.16bn, down 36.8% YoY and 2% below our estimate, as: (1) the firm recognized expenses from ESOP issued in 3Q23; (2) booking of bad debt was changed according to the latest IFRS; and (3) operating expenses rose 1-2% due to unfavorable forex rates. Given non-op income from one-off asset disposal gains, 2Q24 EPS beat our forecast by 3% at NT\$2.46.

#### Disappointing 3Q24 guidance, but revenue to rebound from the trough, possibly in 2025.

Management guides 3Q24 sales of NT\$14.6-15.3bn, below consensus and our forecast by a respective 14% and 16%, mainly as: (1) mainstay US and European clients are delaying orders, and have turned more conservative about long-term orders as inflation remains high; and (2) most design-in projects with US and European clients won't contribute to sales before 2025. We cut our 2024 sales forecast to NT\$60.6bn, down 6.1% YoY, on disappointing 3Q24 guidance and a delay in revenue recovery, possibly to 2025. We estimate 2024 gross margin of 40.5%, and accordingly trim EPS to NT\$11.10.

#### 2025F sales to stage solid rebound on significant contribution from edge AI.

Management guides 2025 sales will rebound substantially, on increasing order volume in 2H24. Sales growth in 2025 will be driven by: (1) significant adoption of edge AI for industrial automation, medical imaging, robotics, and autonomous mobile robot (AMR) applications, which will drive exponential growth in edge AI sales, with sales weighting likely to jump from 4% in 2023 to double-digits in 2025-26; and (2) in 2023-24, the firm has secured orders worth US\$700-720mn through design wins in North America, which will enter mass production in 2025F. We remain positive that revenue will grow significantly in 2025. Given a delay in 2024 revenue recovery, we raise 2025F sales to NT\$75.4bn, up 24% YoY, and EPS to NT\$15.20.

#### Valuation & Action

While lackluster 3Q24 guidance could drag down the share price in the near-term, we believe a revenue rebound from the trough is certain, possibly in 2025. Also, guidance that edge AI sales will grow by double-digits in 2025-26 is in line with the forecast we made. We maintain Outperform with a target price of NT\$457, based on 30x 2025F EPS.

#### Risks

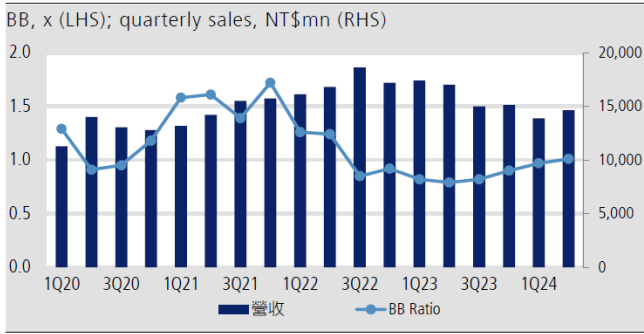
Global economic recession; slow smart factory penetration.

#### Key financials and valuations

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue (NT\$mn)	58,622	68,745	64,568	60,601	75,360
Gross profit (NT\$mn)	22,132	26,113	26,162	24,637	31,050
Operating profit (NT\$mn)	9,800	12,532	12,128	9,938	14,459
Net profit (NT\$mn)	8,250	10,757	10,838	9,493	13,077
EPS (NT\$)	10.67	13.85	12.65	11.05	15.22
Cash DPS (NT\$)	8.00	10.00	9.50	8.30	11.43
EPS growth (%)	13.5	29.8	(8.7)	(12.6)	37.7
PE (x)	32.5	25.0	27.4	31.4	22.8
PB (x)	7.1	6.2	6.1	7.3	6.3
EV/EBITDA (x)	19.9	15.0	16.9	19.5	14.2
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	2.3	2.9	2.7	2.4	3.3
Return on average equity (%)	22.8	26.3	23.5	21.3	29.8

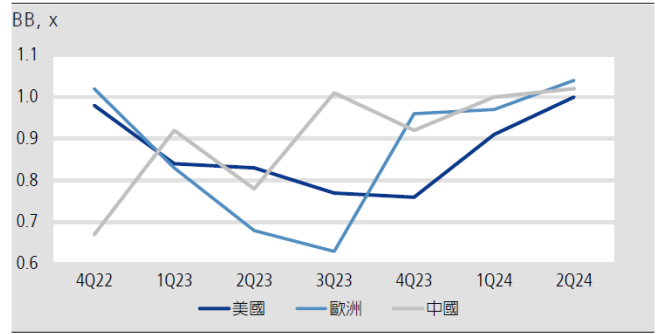
Source: Company data, KGI Research estimates

Figure 1: Advantech BB rebounded to 1.01 in 2Q24



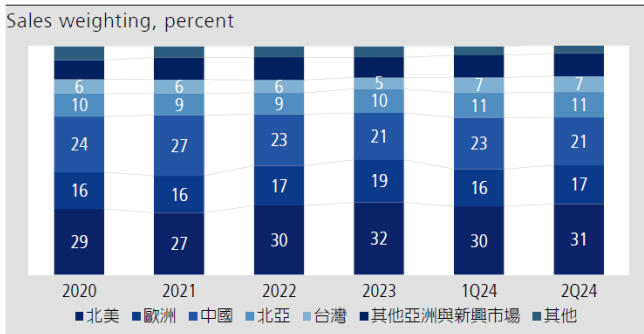
Source: Company data; KGI Research

Figure 2: BB in the US, Europe, & China have all recovered to over 1.0



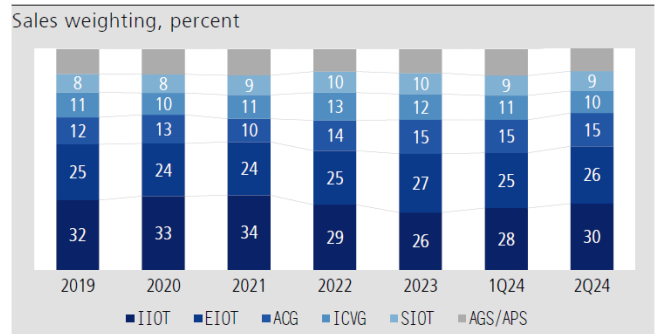
Source: Company data; KGI Research

Figure 3: Sales by region



Source: Company data; KGI Research

Figure 3: Sales by product



Source: Company data; KGI Research

Figure 5: Breakdown of 2Q24 results & 3Q24 forecast revisions vs. consensus

NT\$m	2Q24							3Q24F						
	Actual	KGI forecast	Diff. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	14,644	14,643	0.0	5.5	(14.0)	14,719	(0.5)	15,275	17,775	(14.1)	4.3	1.8	17,467	(12.5)
Gross profit	5,931	5,857	1.3	6.9	(15.4)	5,920	0.2	6,265	7,143	(12.3)	5.6	4.1	7,040	(11.0)
Operating income	2,166	2,211	(2.0)	13.0	(36.8)	2,332	(7.1)	2,691	3,144	(14.4)	24.2	7.4	3,161	(14.9)
Pretax income	2,633	2,527	4.2	9.9	(30.1)	2,679	(1.7)	3,112	3,494	(10.9)	18.2	0.8	3,532	(11.9)
Net income	2,113	2,047	3.3	6.0	(29.7)	2,097	0.8	2,521	2,830	(10.9)	19.3	(2.4)	2,727	(7.6)
EPS (NT\$)	2.46	2.38	3.2	6.0	(29.9)	2.39	3.1	2.93	3.30	(11.0)	19.3	(2.6)	3.13	(6.2)
Gross margin (%)	40.5	40.0	0.5 ppts	0.5 ppts	(0.7) ppts	40.2	0.3 ppts	41.0	40.2	0.8 ppts	0.5 ppts	0.0 ppts	40.3	0.7 ppts
OP margin (%)	14.8	15.1	(0.3) ppts	1.0 ppts	(5.3) ppts	15.8	(1.1) ppts	17.6	17.7	(0.1) ppts	2.8 ppts	(1.2) ppts	18.1	(0.5) ppts
Net margin (%)	14.4	14.0	0.5 ppts	0.1 ppts	(3.2) ppts	14.2	0.2 ppts	16.5	15.9	0.6 ppts	2.1 ppts	(0.6) ppts	15.6	0.9 ppts

Source: Bloomberg; KGI estimates

Figure 6: Breakdown of 2024-25 forecast revisions vs. consensus

NT\$m	2024F						2025F					
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)
Sales	60,601	66,808	(9.3)	(6.1)	65,093	(6.9)	75,360	81,535	(7.6)	24.4	75,452	(0.1)
Gross profit	24,637	26,906	(8.4)	(5.8)	26,241	(6.1)	31,050	33,384	(7.0)	26.0	30,502	1.8
Operating income	9,938	11,242	(11.6)	(18.1)	10,928	(9.1)	14,459	15,655	(7.6)	45.5	14,013	3.2
Pretax income	11,679	12,678	(7.9)	(12.0)	12,108	(3.5)	16,144	16,970	(4.9)	38.2	15,037	7.4
Net income	9,493	10,321	(8.0)	(12.4)	9,959	(4.7)	13,077	13,746	(4.9)	37.7	12,183	7.3
EPS (NT\$)	11.05	12.02	(8.1)	(12.6)	11.65	(5.2)	15.22	16.01	(4.9)	37.7	14.47	5.2
Gross margin (%)	40.7	40.3	0.4 ppts	0.1 ppts	40.3	0.3 ppts	41.2	40.9	0.3 ppts	0.5 ppts	40.4	0.8 ppts
OP margin (%)	16.4	16.8	(0.4) ppts	(2.4) ppts	16.8	(0.4) ppts	19.2	19.2	(0.0) ppts	2.8 ppts	18.6	0.6 ppts
Net margin (%)	15.7	15.4	0.2 ppts	(1.1) ppts	15.3	0.4 ppts	17.4	16.9	0.5 ppts	1.7 ppts	16.1	1.2 ppts

Source: Bloomberg; KGI estimates

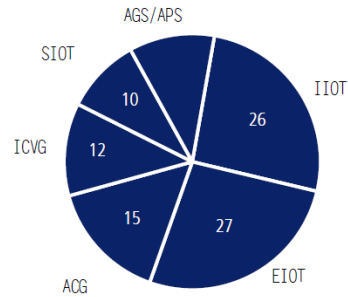
**Figure 7: Company profile**

Advantech was founded in 1981 and is a leading global industrial computer manufacturer. In 2023, the company achieved consolidated sales of NT\$64.6bn and a global market share of 43%. Product distribution by application was: IIOT 26%; EIOT 27%; ACG 15%; ICGV 12%; SIOT 10%; and AS+ 10%. Main markets are North America, Europe and Asia, with manufacturing bases located in Linkou and Neihu, Taiwan; Kunshan, China; and Kyushu, Japan.

Source: KGI Research

**Figure 8: Advantech product mix**

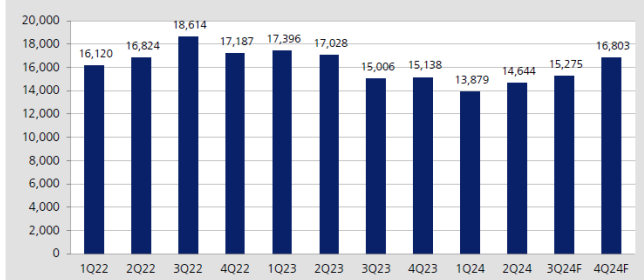
Product mix, percent



Source: KGI Research

**Figure 9: Sales**

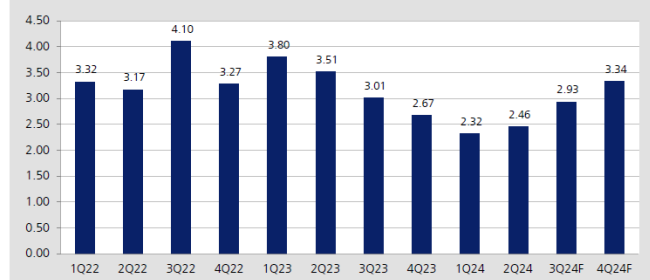
Sales, NT\$m



Source: KGI Research

**Figure 10: EPS**

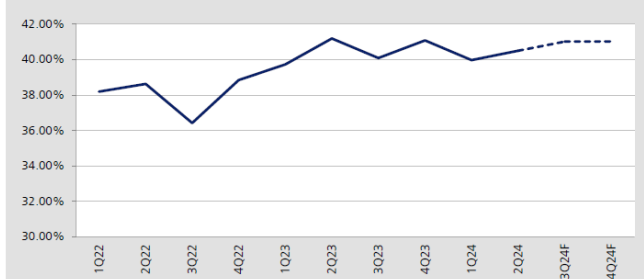
EPS, NT\$



Source: KGI Research

**Figure 11: Gross Margin**

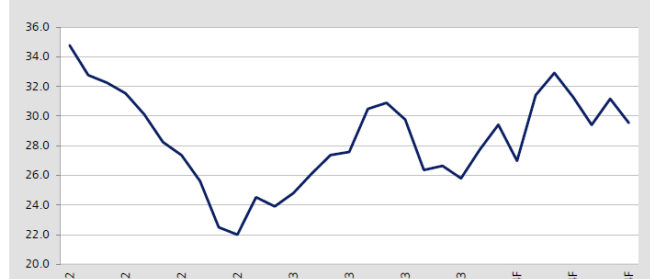
Gross margin, percent



Source: KGI Research

**Figure 12: Rolling PE**

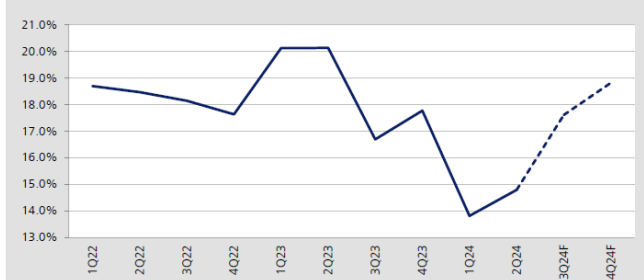
Rolling PE, times



Source: KGI Research

**Figure 13: Operating Margin**

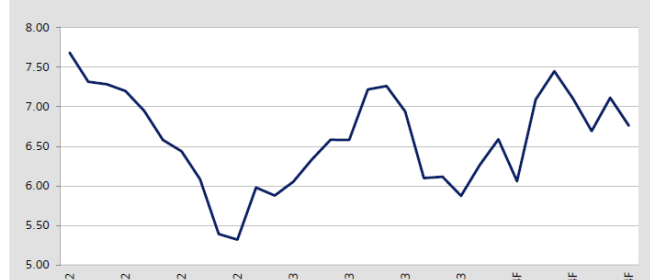
Operating margin, percent



Source: KGI Research

**Figure 14: Rolling PB**

Rolling PB, times



Source: KGI Research

**Income statement**

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23A	Dec-23A	Mar-24A	Jun-24A	Sep-24F	Dec-24F	Dec-23A	Dec-24F	Dec-25F
<b>Income statement (NT\$m)</b>											
<b>Revenue</b>	<b>17,396</b>	<b>17,028</b>	<b>15,006</b>	<b>15,138</b>	<b>13,879</b>	<b>14,644</b>	<b>15,275</b>	<b>16,803</b>	<b>64,568</b>	<b>60,601</b>	<b>75,360</b>
Cost of goods sold	(10,485)	(10,014)	(8,990)	(8,918)	(8,332)	(8,713)	(9,010)	(9,909)	(38,406)	(35,963)	(44,310)
<b>Gross profit</b>	<b>6,911</b>	<b>7,014</b>	<b>6,017</b>	<b>6,220</b>	<b>5,548</b>	<b>5,931</b>	<b>6,265</b>	<b>6,893</b>	<b>26,162</b>	<b>24,637</b>	<b>31,050</b>
Operating expenses	(3,409)	(3,585)	(3,511)	(3,529)	(3,630)	(3,765)	(3,574)	(3,730)	(14,034)	(14,700)	(16,590)
<b>Operating profit</b>	<b>3,502</b>	<b>3,430</b>	<b>2,506</b>	<b>2,691</b>	<b>1,917</b>	<b>2,166</b>	<b>2,691</b>	<b>3,163</b>	<b>12,128</b>	<b>9,938</b>	<b>14,459</b>
Depreciation of fixed assets	(221)	(221)	(232)	(238)	(242)	(230)	(206)	(145)	(912)	(824)	(798)
Amortisation of intangible assets	(43)	(43)	(42)	(46)	(35)	(44)	(39)	(39)	(174)	(158)	(156)
<b>EBITDA</b>	<b>3,765</b>	<b>3,693</b>	<b>2,780</b>	<b>2,975</b>	<b>2,195</b>	<b>2,440</b>	<b>2,937</b>	<b>3,348</b>	<b>13,214</b>	<b>10,920</b>	<b>15,413</b>
Interest income	-	-	81	87	88	102	103	104	275	397	375
Investment income	25	147	277	98	113	119	152	120	613	504	514
Other non-op income	76	206	41	20	50	94	51	54	170	249	246
<b>Non-operating income</b>	<b>101</b>	<b>353</b>	<b>399</b>	<b>205</b>	<b>250</b>	<b>316</b>	<b>306</b>	<b>279</b>	<b>1,059</b>	<b>1,151</b>	<b>1,135</b>
Interest expense	(11)	(11)	(11)	(11)	(23)	(21)	-	-	(46)	(44)	-
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	89	(2)	195	(155)	252	171	116	96	125	635	550
<b>Non-operating expenses</b>	<b>77</b>	<b>(14)</b>	<b>183</b>	<b>(167)</b>	<b>229</b>	<b>151</b>	<b>116</b>	<b>96</b>	<b>80</b>	<b>591</b>	<b>550</b>
<b>Pre-tax profit</b>	<b>3,680</b>	<b>3,769</b>	<b>3,088</b>	<b>2,730</b>	<b>2,397</b>	<b>2,633</b>	<b>3,112</b>	<b>3,538</b>	<b>13,267</b>	<b>11,679</b>	<b>16,144</b>
Current taxation	(725)	(763)	(531)	(458)	(428)	(523)	(591)	(672)	(2,477)	(2,215)	(3,067)
Minorities	5	(1)	26	19	24	4	-	-	48	28	-
<b>Normalised net profit</b>	<b>2,959</b>	<b>3,004</b>	<b>2,583</b>	<b>2,291</b>	<b>1,993</b>	<b>2,113</b>	<b>2,521</b>	<b>2,866</b>	<b>10,838</b>	<b>9,493</b>	<b>13,077</b>
Extraordinary items	0	(0)	(0)	0	0	(0)	(0)	(0)	-	(0)	(0)
<b>Net profit</b>	<b>2,959</b>	<b>3,004</b>	<b>2,583</b>	<b>2,291</b>	<b>1,993</b>	<b>2,113</b>	<b>2,521</b>	<b>2,866</b>	<b>10,838</b>	<b>9,493</b>	<b>13,077</b>
EPS (NT\$)	3.80	3.51	3.01	2.67	2.32	2.46	2.93	3.34	12.65	11.05	15.22
<b>Margins (%)</b>											
Gross profit margin	39.7	41.2	40.1	41.1	40.0	40.5	41.0	41.0	40.5	40.7	41.2
Operating margin	20.1	20.1	16.7	17.8	13.8	14.8	17.6	18.8	18.8	16.4	19.2
EBITDA margin	21.6	21.7	18.5	19.7	15.8	16.7	19.2	19.9	20.5	18.0	20.5
Pretax profit margin	21.2	22.1	20.6	18.0	17.3	18.0	20.4	21.1	20.5	19.3	21.4
Net profit margin	17.0	17.6	17.2	15.1	14.4	14.4	16.5	17.1	16.8	15.7	17.4
<b>Sequential growth (%)</b>											
Revenue growth	1.2	(2.1)	(11.9)	0.9	(8.3)	5.5	4.3	10.0			
Gross profit growth	3.5	1.5	(14.2)	3.4	(10.8)	6.9	5.6	10.0			
Operating profit growth	15.5	(2.0)	(26.9)	7.4	(28.8)	13.0	24.2	17.5			
EBITDA growth	14.1	(1.9)	(24.7)	7.0	(26.2)	11.2	20.3	14.0			
Pretax profit growth	16.1	2.4	(18.1)	(11.6)	(12.2)	9.9	18.2	13.7			
Net profit growth	16.4	1.5	(14.0)	(11.3)	(13.0)	6.0	19.3	13.7			
<b>YoY growth (%)</b>											
Revenue growth	7.9	1.2	(19.4)	(11.9)	(20.2)	(14.0)	1.8	11.0	(6.1)	(6.1)	24.4
Gross profit growth	12.2	7.9	(11.3)	(6.8)	(19.7)	(15.4)	4.1	10.8	0.2	(5.8)	26.0
Operating profit growth	16.1	10.4	(25.8)	(11.2)	(45.2)	(36.8)	7.4	17.5	(3.2)	(18.1)	45.5
EBITDA growth	15.0	9.6	(23.7)	(9.9)	(41.7)	(33.9)	5.6	12.5	(2.8)	(17.4)	41.1
Pretax profit growth	16.1	20.1	(22.2)	(13.9)	(34.9)	(30.1)	0.8	29.6	(1.3)	(12.0)	38.2
Net profit growth	15.0	22.2	(18.9)	(9.9)	(32.6)	(29.7)	(2.4)	25.1	0.7	(12.4)	37.7

Source: Company data, KGI Research estimates

**Balance sheet**

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
<b>Total assets</b>	<b>57,828</b>	<b>66,385</b>	<b>69,056</b>	<b>70,309</b>	<b>77,664</b>
<b>Current assets</b>	<b>36,686</b>	<b>41,747</b>	<b>41,386</b>	<b>42,441</b>	<b>49,519</b>
Cash & ST securities	12,991	15,381	21,200	19,739	23,544
Inventory	12,517	14,008	9,804	11,006	12,600
Accounts receivable	10,292	11,109	9,271	10,573	12,242
Other current assets	886	1,250	1,111	1,122	1,133
<b>Non-current assets</b>	<b>21,142</b>	<b>24,638</b>	<b>27,671</b>	<b>27,869</b>	<b>28,144</b>
LT investments	6,468	9,286	10,624	10,856	10,841
Net fixed assets	10,247	11,039	11,326	11,458	11,749
Other assets	4,428	4,312	5,721	5,555	5,555
<b>Total liabilities</b>	<b>19,465</b>	<b>22,101</b>	<b>20,247</b>	<b>26,968</b>	<b>28,086</b>
<b>Current liabilities</b>	<b>16,504</b>	<b>18,481</b>	<b>16,027</b>	<b>22,937</b>	<b>24,055</b>
Accounts payable	7,487	7,126	6,089	7,207	8,325
Interest bearing ST liabilities	256	531	356	-	-
Other current liabilities	8,761	10,823	9,582	15,730	15,730
<b>Non-current liabilities</b>	<b>2,962</b>	<b>3,620</b>	<b>4,220</b>	<b>4,031</b>	<b>4,031</b>
Long-term debt	-	122	-	-	-
Other L-T liabilities	2,895	3,323	2,609	4,031	4,031
<b>Total equity</b>	<b>38,363</b>	<b>44,284</b>	<b>48,810</b>	<b>43,341</b>	<b>49,578</b>
Share capital	7,745	7,780	8,584	8,611	8,611
Retained earnings reserve	13,706	17,750	19,599	11,895	18,132
Minority interests	510	469	348	120	120
Preferred shareholders funds	-	-	-	2,437	2,437

**Key ratios**

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
<b>Growth</b>					
Revenue growth	14.7%	17.3%	(6.1%)	(6.1%)	24.4%
Operating profit growth	8.5%	27.9%	(3.2%)	(18.1%)	45.5%
EBITDA growth	8.9%	24.7%	(2.8%)	(17.4%)	41.1%
Net profit growth	13.8%	30.4%	0.7%	(12.4%)	37.7%
EPS growth	13.5%	29.8%	(8.7%)	(12.6%)	37.7%
<b>Profitability</b>					
Gross profit margin	37.8%	38.0%	40.5%	40.7%	41.2%
Operating margin	16.7%	18.2%	18.8%	16.4%	19.2%
EBITDA margin	18.6%	19.8%	20.5%	18.0%	20.5%
Net profit margin	14.1%	15.6%	16.8%	15.7%	17.4%
Return on average assets	15.3%	17.3%	16.0%	13.6%	17.7%
Return on average equity	22.8%	26.3%	23.5%	21.3%	29.8%
<b>Stability</b>					
Gross debt to equity	0.7%	1.5%	0.7%	0.0%	0.0%
Net debt to equity					
Interest coverage (x)	655.5	499.0	292.2	268.2	
Interest & ST debt coverage (x)	1.0	1.0	1.0	1.0	1.0
Cash flow interest coverage(x)	582.8	360.5	212.2	107.7	
Cash flow/int. & ST debt (x)	33.7	17.4	24.1	107.7	
Current ratio (x)	2.2	2.3	2.6	1.9	2.1
Quick ratio (x)	1.5	1.5	2.0	1.4	1.5
Net debt (NT\$m)	(9,045)	(11,377)	(10,655)	(8,696)	(13,171)
<b>Per share data</b>					
EPS (NT\$)	10.67	13.85	12.65	11.05	15.22
CFPS (NT\$)	11.81	12.53	11.28	5.48	13.83
BVPS (NT\$)	48.88	56.32	56.45	47.51	54.77
Adj BVPS (NT\$)	48.97	56.41	56.56	47.48	54.73
SPS (NT\$)	75.84	88.51	75.36	70.55	87.72
EBITDA/share (NT\$)	14.10	17.50	15.42	12.71	17.94
Cash DPS (NT\$)	8.00	10.00	9.50	8.30	11.43
<b>Activity</b>					
Sales / avg assets	1.09	1.11	0.95	0.87	1.02
Days receivable	64.1	59.0	52.4	63.9	59.3
Days inventory	125.2	119.9	93.2	112.0	103.8
Days payable	74.9	61.0	57.9	73.3	68.6
Cash cycle	114.4	117.9	87.7	102.5	94.5

Source: Company data, KGI Research estimates

**Profit & loss**

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
<b>Revenue</b>	<b>58,622</b>	<b>68,745</b>	<b>64,568</b>	<b>60,601</b>	<b>75,360</b>
Cost of goods sold	(36,490)	(42,632)	(38,406)	(35,963)	(44,310)
<b>Gross profit</b>	<b>22,132</b>	<b>26,113</b>	<b>26,162</b>	<b>24,637</b>	<b>31,050</b>
Operating expenses	(12,331)	(13,581)	(14,034)	(14,700)	(16,590)
<b>Operating profit</b>	<b>9,800</b>	<b>12,532</b>	<b>12,128</b>	<b>9,938</b>	<b>14,459</b>
<b>Non-operating income</b>	<b>665</b>	<b>904</b>	<b>1,059</b>	<b>1,151</b>	<b>1,135</b>
Interest income	27	-	275	397	375
Investment income	449	447	613	504	514
Other non-op income	189	457	170	249	246
<b>Non-operating expenses</b>	<b>(210)</b>	<b>6</b>	<b>80</b>	<b>591</b>	<b>550</b>
Interest expense	(16)	(27)	(46)	(44)	-
Investment loss	-	-	-	-	-
Other non-op expenses	(195)	33	125	635	550
<b>Pre-tax profit</b>	<b>10,255</b>	<b>13,443</b>	<b>13,267</b>	<b>11,679</b>	<b>16,144</b>
Current taxation	(1,948)	(2,700)	(2,477)	(2,215)	(3,067)
Minorities	(57)	15	48	28	-
Extraordinary items	-	(0)	0	(0)	(0)
<b>Net profit</b>	<b>8,250</b>	<b>10,757</b>	<b>10,838</b>	<b>9,493</b>	<b>13,077</b>
<b>EBITDA</b>	<b>10,897</b>	<b>13,589</b>	<b>13,214</b>	<b>10,920</b>	<b>15,413</b>
EPS (NT\$)	10.67	13.85	12.65	11.05	15.22

**Cash flow**

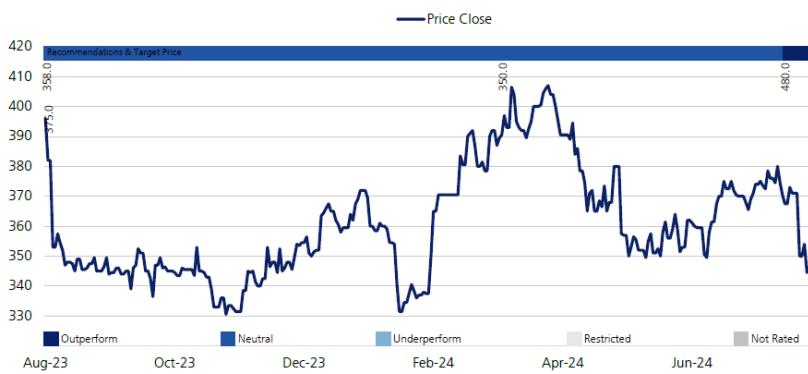
NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
<b>Operations cash flow</b>	<b>9,132</b>	<b>9,731</b>	<b>9,665</b>	<b>4,709</b>	<b>11,885</b>
Net profit	8,250	10,757	10,838	9,493	13,077
Depreciation & amortisation	1,097	1,057	1,086	982	953
Decrease in working capital	(3,061)	(2,727)	5,006	(1,386)	(2,145)
Other operating cash flow	2,846	644	(7,265)	(4,380)	(0)
<b>Investing cash flow</b>	<b>(1,276)</b>	<b>(2,240)</b>	<b>(2,573)</b>	<b>226</b>	<b>(570)</b>
Sale of ST investment	54	(902)	(1,265)	1,083	659
New investments	(390)	(39)	(117)	38	15
Capital expenditure	(1,036)	(1,353)	(1,236)	(820)	(1,089)
Others investing cashflow	96	54	45	(75)	(156)
<b>Free cash flow</b>	<b>4,670</b>	<b>6,808</b>	<b>14,546</b>	<b>6,672</b>	<b>9,277</b>
<b>Financing cash flow</b>	<b>(5,564)</b>	<b>(5,649)</b>	<b>(8,064)</b>	<b>(7,602)</b>	<b>(7,130)</b>
Increase in short term debt	91	280	(276)	(4)	-
Increase in long term loans	-	122	-	(119)	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(5,506)	(6,196)	(7,800)	(8,140)	(7,130)
Other financing cashflow	(148)	146	12	661	-
<b>Forex effects</b>	<b>(488)</b>	<b>886</b>	<b>(46)</b>	<b>385</b>	<b>291</b>
<b>Total cash generated</b>	<b>1,804</b>	<b>2,729</b>	<b>(1,018)</b>	<b>(2,281)</b>	<b>4,475</b>

**ROIC**

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	21.0%	19.8%	21.7%	24.3%	22.0%
= <b>Operating margin</b>	<b>16.7%</b>	<b>18.2%</b>	<b>18.8%</b>	<b>16.4%</b>	<b>19.2%</b>
1 / (Working capital/revenue	0.1	0.1	0.1	(0.0)	0.0
+ Net PPE/revenue	0.2	0.2	0.2	0.2	0.2
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= <b>Capital turnover</b>	<b>3.3</b>	<b>3.5</b>	<b>4.0</b>	<b>5.3</b>	<b>5.4</b>
Operating margin	16.7%	18.2%	18.8%	16.4%	19.2%
x Capital turnover	3.3	3.5	4.0	5.3	5.4
x (1 - tax rate)	81.0%	79.9%	81.3%	81.0%	81.0%
= <b>After-tax ROIC</b>	<b>44.4%</b>	<b>50.9%</b>	<b>61.6%</b>	<b>70.5%</b>	<b>84.3%</b>

Source: Company data, KGI Research estimates

**Advantech – Recommendation & target price history**



Date	Rating	Target	Price
2024-07-19	Outperform	480.0	367.5
2024-03-06	Neutral	350.0	390.5
2023-08-02	Neutral	375.0	382.0
2023-05-03	Neutral	358.0	372.0
2023-03-01	Neutral	322.0	356.5
2022-11-02	Neutral	283.0	298.0
2022-08-03	Neutral	349.0	348.5
2022-05-04	Neutral	338.0	376.0
2022-03-02	Outperform	433.0	372.0
2021-11-03	Outperform	433.0	361.5

Source: TEJ, KGI Research

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