

Vertiv (VRT.US)

Liquid Cooling Technology Presents New Growth Opportunities
US | AI

Company background

Vertiv (VRT) designs, manufactures and services critical digital infrastructure for data centers (80% of net sales in 2024), communication networks (10%), and commercial and industrials (10%). Key products include critical infrastructure & solutions (AC & DC power management, integrated modular solutions, thermal management), integrated rack solutions (racks, rack power and power distribution, rack power distribution etc.), and management systems for monitoring and controlling digital infrastructure, integral to the technologies in services such as e-commerce, online banking, file sharing, video on-demand, energy storage, wireless communications, IoT and online gaming. The most prominent brands include Vertiv, Liebert, NetSure, Geist, Energy Labs, ERS, Albér, and Avocent. The company operates across three reportable segments: the Americas (56% of net sales in 2024); Asia Pacific (22%); and Europe, Middle East, & Africa (22%).

Industry overview

VRT is operating in the data center infrastructure industry, a core sector supporting global digital transformation, primarily providing hardware facilities and technical services required for data storage, computation, and transmission in fields like the internet, cloud computing, and AI. The industry primarily generates revenue through the sale of key data center equipment, including power systems (e.g., 800VDC platform), cooling equipment (e.g., liquid cooling CDU units), server racks, and IT infrastructure. Taking VRT as an example, its 3Q25 revenue reached \$2,676mn (82.8% of product sales), driven mainly by explosive demand from AI data centers for liquid cooling solutions and high-efficiency power products. VRT's role as the exclusive liquid cooling supplier in the NVIDIA-led COOLERCHIPS program further validates the profit potential of high value-added products.

Capital expenditure by hyperscale operators and data centers grew by 55% in 2024 and is expected to increase by a further 56% in 2025. However, Vertiv's organic sales grew by only 18% in 2024, with projected growth of 26-28% in 2025. This indicates that the company is struggling to fully meet the surging market demand due to factors such as supply chain constraints and the typical positioning of cooling solutions later in the procurement cycle. As the backlog of unfilled orders continues to rise and stable capital expenditure supports the growth trajectory, the company's order volume continues to increase. Given that organic order volume is a core revenue driver, we forecast net sales growth of 27%/25% in 2025/2026 under the baseline scenario.

According to Dell'Oro Group data, the liquid cooling market size is expected to approach \$2 billion by 2027, with a compound annual growth rate of 60% during the period 2020-2027. The upgrade in cooling technology requires driving product structure optimization, allowing Vertiv to strengthen its pricing power and improve gross margins. However, the full manifestation of this effect depends on the pace of technological evolution, so its impact is relatively limited in the 2026 forecast. The breakthrough in microfluidics technology announced by Microsoft in September, which embeds liquid cooling directly inside chips, makes precise control of liquid flow paths within racks crucial. Amid the growing trend of hyperscale operators emphasizing independent intellectual property development, the company, with its unique positioning, can seize such high-value innovation opportunities and continue to serve as a core partner for the development, supply, and deployment of large-scale solutions.

21 Nov 2025

Accumulate

CMP USD 165
(Closing price as of 19 Nov)
Target USD 188 (+13.7%)

COMPANY DATA

O/S SHARES (MN) :	0.38
MARKET CAP (USD MN) :	63.03
52 - WK HI/LO (USD):	202.45/53.57

SHARE HOLDING PATTERN, %

The Vanguard Group	10.0%
BlackRock	9.7%

PRICE VS. S&P 500



Source: Phillip Securities (HK) Research

KEY FINANCIALS

USD mn	FY23	FY24	FY25E	FY26E
Revenue	6,863	8,012	10,180	12,744
Adjusted net profit	685	1,105	1,587	2,066
Adjusted EPS	1.75	2.86	4.06	5.38
P/E ratio, x	72.1	73.3	46.2	34.8
Dividend Yield	0.1%	0.1%	0.1%	0.1%

Source: Company reports, Phillip Securities Est.

Research Analyst

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Data centers are placing higher demands on cooling solutions to support continuously increasing rack power densities. Current data centers commonly support rack power exceeding 20kW, but the market is moving towards levels above 50kW. The thermal density characteristics of new-generation CPUs and GPUs significantly exceed those of previous generations, while server manufacturers are packing more processing units into individual racks to meet the surging demands of high-performance computing and AI applications.

Company valuation

Although the growth in order volume has been accompanied by a narrowing incremental profit margin, reflecting a weakening pricing power since the second quarter of 2024, signs of easing pressure have emerged. In the third quarter of 2025, the Americas region contributed 40% of the incremental operating profit margin, marking a strong reversal from the declining trend in incremental margins in the first half of the year. This was primarily due to the fading impact of raw material costs and tariffs. Management expects to largely offset the tariff impacts by the end of the first quarter of 2026. Accordingly, we set the incremental operating profit margin for the baseline 2025/2026 scenario at 23%/24%.

Key assumptions in the DCF analysis:

1. WACC: The capital structure consists of 67.6% debt and 32.4% equity, with a debt cost of 1.2%, an effective tax rate of 35.2%, and an equity cost of 27.2%.
2. The discount period is from the fourth quarter of 2025 to the fourth quarter of 2026, calculated on a quarterly basis.
3. The perpetual growth rate is 4.0%, based on the US GDP growth rate, converted to a quarterly growth rate of 1.0%.

Considering the limitations of the DCF model, we employed three valuation methods, comparing this result with EV/EBIT and P/E valuations, and ultimately derived a target price of \$188, initiating with an "Accumulate" rating.

Valuation method	Assumptions	Price \$
P/EBIT	25x 2026E EBIT	170
P/E	33x 2026E EPS	178
DCF		215
Average		188
Implied Upside/(Downside)		13.7%

Risk factors

1) Intensifying competition; 2) Intensified trade friction; 3) Deteriorated market demand.

Financials

Income statement	FY2023	FY2024	FY2025E	FY2026E
Net sales	6,863	8,012	10,180	12,744
Net sales - products	5,406	6,394	8,429	10,029
Net sales - services	1,457	1,618	1,751	2,715
Costs and expenses	4,463	5,078	6,527	8,279
Cost of sales - products	3,576	4,099	5,518	6,541
Cost of sales - services	887	978	1,009	1,738
Gross profit	2,401	2,934	3,653	4,465
Selling, general and administrative expenses	1,347	1,383	1,604	1,807
Adjusted Operating profit	1,054	1,552	2,049	2,658
Interest expense, net	180	150	79	64
Adjusted EBT	873	1,401	1,970	2,595
Income tax expense (benefit)	189	297	383	528
Adjusted net income	685	1,105	1,587	2,066

Balance sheet	FY2023	FY2024	FY2025E	FY2026E
Assets				
Current assets				
Cash and cash equivalents	780	1,228	1,867	2,392
Accounts receivables	2,118	2,363	2,799	3,073
Inventories	884	1,244	1,401	1,614
Other current assets	219	267	905	905
Total current assets	4,002	5,102	6,972	7,985
Non-current assets				
Property, plant and equipment, net	560	625	794	972
Goodwill	1,330	1,321	1,444	1,444
Other intangible assets, net	1,673	1,487	1,456	1,248
Deferred incomes taxes	160	303	259	259
Right-of-use assets, net	174	202	284	284
Other non-current assets	100	92	75	75
Total non-current assets	3,997	4,031	4,312	4,281
Total assets	7,999	9,133	11,284	12,266
Liabilities				
Current liabilities				
Current portion of long-term debt	22	21	21	21
Current portion of warrant liabilities	-	-	-	-
Accounts payable	986	1,316	1,752	1,951
Deferred revenue	639	1,063	1,132	1,132
Accrued expenses and other liabilities	612	613	681	681
Income taxes	47	84	24	127
Total current liabilities	2,305	3,097	3,610	3,912
Non-current liabilities				
Long-term debt, net	2,919	2,907	2,892	2,872
Deferred income taxes	160	240	285	285
Warrant liabilities	195	-	-	-
Long-term lease liabilities	143	171	231	231
Other long-term liabilities	262	282	317	317
Total non-current liabilities	3,678	3,601	3,726	3,705
Total liabilities	5,984	6,698	7,335	7,617
Equity				
Treasury stock	-	-	-	(1,200)
Additional paid-in capital	2,711	2,821	2,898	2,966
Retained earnings	(692)	(238)	1,023	2,824
Accumulated other comprehensive (loss) income	(5)	(149)	27	59
Total equity	2,015	2,434	3,948	4,649
Total liabilities and equity	7,999	9,133	11,284	12,266

Cash flow statement	FY2023	FY2024	FY2025E	FY2026E
Cash flows from operating activities				
Net incomes	460	496	1,319	1,871
Add-backs:				
Depreciation	74	82	98	123
Amortization	197	195	201	208
Deferred income taxes	(132)	(55)	92	-
Amortization of debt discount and issuance costs	8	7	5	-
Change in fair value of warrant liabilities	158	449	-	-
Changes in operating working capital	67	114	(60)	(184)
Stock-based compensation	25	35	54	68
Other	43	(7)	32	-
Net cash provided by (used for) operating activities	901	1,316	1,741	2,084
Cash flows from investing activities				
Capital expenditures	(128)	(167)	(250)	(300)
Investments in capitalized software	(7)	(17)	(5)	-
Purchase of short-term investments	-	-	(540)	-
Acquisition of businesses, net of cash acquired	(29)	(18)	(222)	-
Proceeds from Business/PPE disposition	24	-	-	-
Net cash provided by (used for) investing activities	(139)	(202)	(1,016)	(300)
Cash flows from financing activities				
Short-term borrowings, net	(235)	-	-	-
Repayment of long-term debt	(27)	(21)	(21)	(21)
Dividend payment	(10)	(42)	(57)	(70)
Repurchase of common stock	-	(600)	-	(1,200)
Exercise of employee stock options	27	33	31	36
Employee taxes paid from shares withheld	(3)	(19)	(9)	(4)
Net cash provided by (used for) financing activities	(248)	(649)	(56)	(1,258)
Effect of exchange rate changes	2	(22)	14	-
Change in cash	515	444	683	526
Cash and cash equivalents, beginning of period	1,339	2,574	5,760	6,399
Cash and cash equivalents, end of period	1,855	3,018	6,443	6,925
Changes in operating working capital				
Accounts receivable	(415)	(280)	(328)	(274)
Inventories	(54)	(369)	(107)	(213)
Other current assets	143	(64)	(41)	-
Accounts payable	(18)	343	395	199
Deferred revenue	274	435	49	-
Accrued expenses and other liabilities	92	7	45	-
Income taxes	45	43	(74)	104
Total changes in operating working capital	67	114	(60)	(184)

Current Price as of: Nov 19

Source: PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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