

Media Release:

Sercomm Corp. Assigned 'twA-/twA-2' Issuer Credit Ratings; Outlook Stable

July 8, 2026

Rating Action Overview

- Taiwan-based Sercomm Corp. designs and manufactures telecommunication equipment, generating about new Taiwan dollar (NT\$) 54 billion revenue and NT\$2.7 billion EBITDA in 2025.
- Sercomm's solid software development capability coupled with in-house manufacturing underpin its market position in the telecom equipment industry. However, intense competition in the customer premise equipment (CPE) market along with Sercomm's limited pricing power and relatively small operating scale constrain its competitive position and result in lower margins.
- Sercomm's conservative financial policy could enable the company to maintain low debt leverage over the next one to two years, despite heightened working capital needs over the period.
- We have assigned our 'twA-' long-term and 'twA-2' short-term issuer credit ratings to Sercomm.
- The rating outlook is stable to reflect our view that Sercomm could maintain its adequate capital structure and sustain the debt-to-EBITDA ratio below 1x over the next two years.

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Rating Action Rationale

Good software and hardware integration capability along with in-house manufacturing underpin its good market position in the broadband CPE segment. We believe Sercomm Corp.'s accumulated strength in software development coupled with hardware design and in-house manufacturing underpin its market position in the global telecommunication equipment industry. This integration between software development, hardware design and manufacturing allows a high degree of customization and shortens the turnaround time for product development. Sercomm has more than 1,200 R&D engineers and R&D expenses have accounted for 5.0%-6.5% of revenue over the past three years.

Sercomm has also enhanced its production efficiency through the adoption of automation and AI, leading to an increase in unit labor output. In addition, we believe the company's agility in moving production capacity overseas in the face of increasing trade friction and uncertain import taxes in the U.S. demonstrates its good execution in capacity management and cost control. These factors underpin Sercomm's ability to deliver new products to clients in a timely and cost-effective manner, which is critical to market success.

Intense CPE market competition, limited pricing power, and relatively small operating scale constrain Sercomm's competitive position. The company has limited pricing power against its clients which convey significant bargaining power over original design manufacturers (ODMs). These are mostly major telecom or cable operators in the U.S., Europe, and emerging markets including India. Sercomm's good R&D capability provides some price protection for new products in the initial launch stage, but pricing pressure will still emerge later as products enter their mature life cycle. This means that ODMs compete for orders largely based on price and the switching cost for customers is low in most cases. We believe Sercomm will experience continued margin pressure under such market competition.

Nonetheless, rising geopolitical tensions between China and the U.S. and India also prevent intense competition from Chinese network equipment suppliers, such as Huawei and ZTE Corp. This has allowed Sercomm to gain significant market shares in those markets and better sustain its margins. We expect the competitive landscape to remain relatively benign because these geopolitical tensions are unlikely to ease anytime soon.

Growth in enterprise networking and IT infrastructure products could significantly increase product diversity and lower business volatility. Sercomm is strategically diversifying its portfolio beyond the traditional CPE segment and into high-margin internet of things (IoT) business such as distributed access architecture (DAA) products for cable operators and devices for vehicle gateway systems.

U.S. cable operators, which are mostly Sercomm's CPE clients, are investing in DAA technologies to improve their broadband services because of increasing competition from fiber-to-the-home and fixed wireless access providers. Sercomm's shipments of DAA products are likely to pick up in the second half of 2026 and grow substantially in 2027. In addition, Sercomm is developing an integrated ecosystem of sensors and cameras for vehicle gateway systems by partnering with leading system integrators in the U.S.

These new products could significantly diversify Sercomm's business away from the more competitive CPE market and lead to higher and more stable profitability. We forecast the CPE segment will account for less than 50% of Sercomm's revenue in 2027, down from around 69% in 2024, if the company can successfully scale up the revenue from its new products.

Margins could remain under pressure despite a rapid rebound in revenue. We project Sercomm's overall revenue could increase materially by 40%-45% in 2026 and 10%-15% in 2027. This increase will mainly be the result of recovering demand in the U.S. to upgrade telecom equipment, surging memory prices that are lifting average sales prices (ASPs), and rapid growth in shipments of new products such as DAA and vehicle gateways.

The upgrade of broadband services, increasing penetration of 5G services, and a gradual transition from Wi-Fi 6/6e to Wi-Fi 7 are increasing demand for broadband CPE products. Meanwhile, we believe infrastructure and IoT segments will post the strongest growth momentum among all of Sercomm's business lines because of infrastructure investment to facilitate such service upgrades.

However, Sercomm's profitability could remain under pressure in 2026 amid the continued undersupply of components. While increasing memory prices are driving higher ASPs, the timing mismatch between rising input costs and price adjustments will likely erode profitability. Furthermore, the expanded revenue scale resulting from these higher prices could dilute margins.

We therefore forecast Sercomm's EBITDA margin will drop slightly to 4.0%-4.5% in 2026 and 2027, from 5.0% in 2025.

Rising EBITDA should cap leverage growth despite high working capital needs. We anticipate Sercomm generating negative discretionary cash flow in 2026 and 2027, due to working capital outflows for rising revenue and surging prices in semiconductor chips. However, we believe Sercomm's significant cash on hand and improving operating cash flow should enable the company to contain debt growth. This, together with improving EBITDA should keep Sercomm's ratio of debt-to-EBITDA at 0.6x-0.8x in 2026-2027, compared with a net cash position in 2025.

Nonetheless, high working capital needs to support revenue growth has tightened Sercomm's liquidity. We forecast the company will incur NT\$3.0 billion-NT\$3.5 billion operating cash outflow in fiscal 2026. Therefore, we believe Sercomm will increase external debt funding to support such cash needs. Without material additions of committed long-term bank facilities, Sercomm is likely to experience refinancing needs and increase financial risk, in our view. This is despite our view of Sercomm's easy access to banking facilities, given the company's good banking relationships and an overbanking environment in Taiwan.

Outlook

The stable rating outlook reflects our view that Sercomm can enhance its revenue and EBITDA to cap the ratio of debt to EBITDA below 1x in 2026-2027, despite a temporary rise in debt for high working capital needs over the period. Our base case anticipates recovering broadband deployment in developed markets, surging memory prices, and Sercomm's increased penetration into its next-generation products will help restore the company's revenue growth over the next few quarters. We also anticipate Sercomm maintaining prudent investments and working capital management to support its revenue growth over the same period, without a material increase in debt.

Downward scenario

We could lower the long-term rating on Sercomm if:

- The ratio of debt to EBITDA stays above 1.5x without any sign of improvement. This could be due to a lengthened cash conversion cycle that results in significant debt-funded operating cash outflow to support revenue growth or high capital expenditure (capex), including for further production base diversification; or
- The company's ineffective R&D or product design, or intensified competition in the broadband CPE industry that leads to a material loss of key customers and dampens Sercomm's revenue and margins; or
- The company's liquidity position materially weakens due to cash flow shortfalls led by persistent working capital outflows or the failure to acquire sufficient long-term funding such as long-term banking credit facilities.

Upward scenario.

We could raise the rating on Sercomm if:

- The company meaningfully expands its revenue and EBITDA base and at the same time maintains an above average return on capital ratio. This could happen if Sercomm gains a material market rise in share in the broadband CPE industry and broadens the scope of its product offerings with higher and more stable margins, such as infrastructure and IoT solutions; and

- At the same time, the company maintains the ratio of debt to EBITDA comfortably below 1.5x.

Company Description

Founded in 1992, Sercomm designs and manufactures telecommunication equipment, including broadband gateway CPE, Wi-Fi access points, business routers, and IoT-related products. Broadband CPE is the company's biggest business segment, contributing about 56% of revenue in 2025, followed by enterprise network (21%) and infrastructure and IoT solutions (19%). Through its "Go-Direct" strategy since 2017, Sercomm has successfully diversified its customer base to major telecom and cable service operators around the globe and away from traditional CPE vendors. Sercomm's ownership is quite diversified and without a controlling shareholder.

Our Base Case Scenario

- S&P Global forecasts U.S. real GDP to grow by 2.1% in 2026 and 1.9% in 2027; Eurozone real GDP by 0.5% in 2026 and 1.0% in 2027; and Asia-Pacific real GDP by 4.4% in 2026 and 2027.
- Broadband CPE revenue to rebound robustly by 40%-45% in 2026, supported by demand recovery in north America and a higher ASP amid rising component costs. New cable and passive optical network product launches, as well as the ongoing deployment of 5G fixed wireless access will also support this rebound.
- Enterprise related products to record a 15%-20% sales rebound in 2026 and 10%-15% growth in 2027, underpinned by downstream replenishment and the increasing adoption of Wi-Fi 7.
- Infrastructure and IoT segment to show a more meaningful sales increase in 2026 and beyond, following Sercomm's introduction of new distributed access architecture and vehicle gateway related products. We expect this segment to expand by a significant 80%-90% in 2026 and 50%-60% in 2027.
- Gross profit margin (before depreciation and amortization) to decline to 13%-14% in 2026-2027 from 17.7% in 2025. This is mainly because a higher ASP under rising memory chip prices could dilute margins. We also expect the ratio of sales, goods and administration costs to decline over the next two years, given expanding revenue scale.
- Capex will remain at NT\$1.0 billion-NT\$1.5 billion in 2026-2027, mainly for maintenance spending and production line optimization.
- We also assume NT\$60 million equity investments annually in 2026 and 2027, mostly to invest in emerging system integration companies.
- Cash dividend payout ratio to remain stable at around 60% in 2026-2027.

Key metrics**Sercomm Corp.--Taiwan Ratings Corp. Forecast Summary**

Industry sector: Technology Hardware & Semiconductors

(Mil. NT\$)	2023a	2024a	2025a	2026e	2027f	2028f
Revenue	62,584	56,789	53,999	76,490	87,371	94,423
EBITDA (reported)	4,036	3,911	2,664	2,981	3,766	4,447
Plus/(less): Other	204	218	57	57	57	57
EBITDA	4,240	4,129	2,721	3,039	3,824	4,505
Less: Cash interest paid	(221)	(200)	(213)	(75)	(75)	(75)
Less: Cash taxes paid	(523)	(1,151)	(266)	(352)	(492)	(608)
Funds from operations (FFO)	3,496	2,778	2,243	2,611	3,257	3,822
Cash flow from operations (CFO)	3,248	3,398	2,211	(637)	1,870	4,087
Capital expenditure (capex)	1,115	1,320	1,758	1,130	950	930
Free operating cash flow (FOCF)	2,133	2,079	453	(1,767)	920	3,157
Debt (reported)	8,454	5,273	5,069	5,146	5,146	2,146
Plus: Lease liabilities debt	208	410	476	476	476	476
Plus: Pension and other postretirement debt	44	22	13	13	13	13
Less: Accessible cash and liquid investments	(9,569)	(8,091)	(5,590)	(3,138)	(3,170)	(2,163)
Plus/(less): Other	986	418	--	--	--	--
Debt	123	--	--	2,497	2,464	471
Cash and short-term investments (reported)	10,083	8,367	5,859	3,289	3,323	2,267
Adjusted ratios						
Debt/EBITDA (x)	0.0	--	--	0.8	0.6	0.1
FFO/debt (%)	2,844.0	NM	NM	104.6	132.2	810.9
Annual revenue growth (%)	(3.1)	(9.3)	(4.9)	41.6	14.2	8.1
EBITDA margin (%)	6.8	7.3	5.0	4.0	4.4	4.8
Return on capital (%)	24.6	21.7	11.7	11.0	13.3	16.0

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: Adequate

The short-term rating on Sercomm is 'twA-2'. We assess Sercomm's liquidity as adequate and we estimate the company's ratio of liquidity sources to liquidity uses will be 1.22x in 2026.

Sercomm's liquidity sources will still exceed liquidity uses even if its EBITDA was to drop by 15%.

Sercomm has a prudent risk management characterized by its relatively low capex and acquisition plan and high insurance coverage on its account receivables, in our view. We also believe that Sercomm has good banking relationships, as demonstrated by its sufficient bank lines. None of Sercomm's debt carry any financial covenants.

Principal liquidity sources:

- Cash and short-term investments of NT\$5 billion as of March 31, 2026.
- Funds from operation of NT\$2 billion-NT\$3 billion in 2026.
- Undrawn long-term credit facilities of about NT\$2.9 billion maturing beyond the next 12 months as of the end of March 2026.

Principal liquidity uses:

- Debt of NT\$4 billion-NT\$5 billion maturing during 2026.
- Working capital outflow of NT\$2.5 billion-NT\$3.0 billion in 2026.
- Maintenance capex of NT\$0.4 billion-NT\$0.5 billion in 2026.
- Dividend of NT\$764 million in 2026.

Ratings Score Snapshot

Issuer Credit Rating: twA-/Stable/twA-2

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

Business risk: Weak

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

Financial risk: Modest

- Cash flow/Leverage: Modest

Anchor: twa-

Modifiers:

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: twa-

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
- 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

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

New Ratings

Sercomm Corp.

Issuer Credit Ratings

twA-/Stable/twA-2

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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