

Research Update:

# Ratings On Sercomm Corp. Affirmed At 'twA-/twA-2'; Liquidity Revised To Exceptional From Strong; Outlook Stable

May 25, 2020

## Rating Action Overview

Taiwan Ratings Corp. today affirmed its 'twA-' long-term and 'twA-2' short-term issuer credit ratings on Taiwan-domiciled **Sercomm Corp.** The outlook on the long-term rating is stable. The ratings on Sercomm reflect how the company's good software development capability coupled with hardware design and in-house manufacturing underpin its market position in the telecommunication equipment industry. However, Sercomm's limited pricing power against its clients, relatively smaller operating scale, and less-favorable product mix with high contribution from low-margin businesses could continue to constrain its profitability and competitiveness.

The ratings also embed our view that while Sercomm expects to generate negative discretionary cash flow in 2020, due to weaker profitability amid the COVID-19 pandemic, and higher capital expenditure, the company can still remain debt-free on an adjusted basis over the next one to two years with a high cash balance on hand.

We have upwardly revised our assessment of Sercomm's liquidity to exceptional from strong, which has no impact on the ratings. The exceptional assessment mainly reflects our view that Sercomm has significantly lowered its short-term debt through proceeds from the issuance of corporate bonds. We expect Sercomm's ratio of liquidity sources to liquidity uses to reach 2.0x-2.5x over in the 12 months ending March 31, 2021 and well above 2x for the subsequent 12 months.

We believe Sercomm can absorb low probability, high impact event with limited need for refinancing, underpinned by its prudent risk management. This is characterized by a high cash balance, low debt usage and high insurance coverage on its account receivables. We also believe that Sercomm generally has a solid relationship with banks, as evidenced by its low funding cost. None of Sercomm's debt carry financial covenants.

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## Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Understanding Taiwan Ratings' Rating Definitions - June 26, 2018
- 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
- Criteria | Corporates | General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities - November 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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## Ratings List

### Ratings Affirmed

#### Sercomm Corp.

Issuer Credit Rating	twA-/Stable/twA-2
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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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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