Bulletin:

Pegatron Corp.'s Balance Sheet Strength Can Absorb Delisting Of Subsidiary

August 14, 2020

PRIMARY CREDIT ANALYST

David Hsu
Taipei
+886-2-8722-5828
david.hsu
@spglobal.com
david.hsu
@taiwanratings.com.tw

SECONDARY CONTACT

Raymond Hsu, CFA
Taipei
+886-2-8722-5827
raymond.hsu
@spglobal.com
raymond.hsu
@taiwanratings.com.tw

Taiwan Ratings Corp. said today that Taiwan-based **Pegatron Corp.'s** (twAA-/Negative/twA-1+) strong balance sheet should help the company to absorb the impact of its plan to delist a key subsidiary, Casetek Holdings Ltd. We also do not expect the move to purchase the remaining shares in listed company Casetek will lead to material weakening in Pegatron's debt leverage. That's because the company has ample cash on hand and is likely to see improving performance in 2020-2021 supported by its key customers' new product cycles. Pegatron's debt to EBITDA ratio remained very low at 0.1x on an adjusted basis in the 12 months ended March 31, 2020 and we estimate the delisting to increase the ratio by less than 0.5x.

The outlook on the long-term issuer rating on Pegatron is negative, to reflect the uncertainty over the company's ability to restore its profitability over the next one to two years. Pegatron faces significant difficult in this respect, due to continuing pressure on the company's margins. Intense price competition, weak smartphone demand, rising costs associated with rising wages and likely capacity relocation, as well as the still-weak performance of its major subsidiary, Casetek.

Pegatron announced its intention to delist Casetek by acquiring the remaining shares in the subsidiary, which bodes well for better integration and business opportunities between the two companies. The transaction has total cash consideration of about New Taiwan dollar (NT$) 14.5 billion, compared with Pegatron's cash on hand of NT$173 billion as of the end of March 2020. We expect Pegatron to compete the transaction by early 2021. The delisting has no immediate impact on Pegatron's business position, but could likely improve Casetek and the group's operating efficiency in the long term along with Casetek's better integration with the rest of the Pegatron group.

This report does not constitute a rating action.