

Bulletin:

Unimicron Has Ample Financial Headroom To Absorb Revenue Hit After Fire Dents Production Capacity

October 29, 2020

Taiwan Ratings Corp. said today that **Unimicron Technology Corp.** (twA/Stable/twA-1) has significant financial buffer to absorb the potential fall in cash flow after a fire at one of the firm's plants. Unimicron has significantly reduced its debt leverage over the past two years which should enable it to fully absorb potential losses following a fire at the plant which contributed about 6% of the group's consolidated revenue in 2019. Nonetheless, it remains unclear how much revenue will be lost and for how long.

We believe Unimicron's strong performance from its overall business operations will continue to generate sufficient cash flow to keep the company's ratio of debt to EBTIDA materially below 2.5x in 2020-2021, a level that we deem appropriate for the current ratings. The ratio was about 1.3x on an annualized basis as of the end of June 2020. This supports our view of sizeable financial headroom for the ratings. Unimicron's operating performance continued to improve in the first three quarters of 2020. We expect it to sustain strong profitability over the next few quarters, supported by an improving outlook for Unimicron's IC substrate business and the company's good progress in the production of new products. In our view, Unimicron could continue to benefit from demand growth for advanced IC substrates used in high performance computing and 5G mobile communications, given the company's good market position in this segment.

This report does not constitute a rating action.

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