

Media Release:

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

May 20, 2021

## 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 our view that the company's good software development capability coupled with hardware design and in-house manufacturing underpin its market position in the telecommunication equipment industry. In addition, the tech war between China and the U.S. over the U.S. government's clean network program has significantly reduced competition for Sercomm from Chinese telecom equipment suppliers in the U.S. and Europe. 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 Sercomm's ratio of debt to EBITDA could rise slightly to in 0.2x-0.6x in 2021-2022 from a debt-free position in 2020, due to significant working capital outflows for rapid revenue growth, higher inventory level amid tight supply, and still elevated capital expenditure (capex).

We have downwardly revised our assessment of Sercomm's liquidity to strong from exceptional, which has no impact on the ratings. The revision mainly reflects Sercomm's increasing working capital needs and heightened capex. Nonetheless, we view Sercomm's ratio of liquidity sources to liquidity uses will likely to remain strong at 1.5x-1.8x in the 12 months ending March 31, 2022 and 3.5x-3.8x for the subsequent 12 months.

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

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## Outlook

The stable outlook reflects our assessment that Sercomm could continue to generate robust EBITDA with strong revenue growth offsetting narrower margins as a result of higher component costs and the appreciation of the new Taiwan dollar over the next one to two years. In addition, Sercomm could sustain its ratio of debt to EBITDA low at 0.2x-0.6x in 2021-2022, despite significant negative discretionary cash flow in 2021 for heightened working capital needs.

### Downward scenario

We may lower the ratings on Sercomm if:

- the company's ineffective R&D or product design, or intensified competition particularly from Chinese competitors following an ease in tension between the U.S. and China, lead to material losses of key customers, revenue and margins; or
- the company increases debt usage substantially, possibly due to large-scale capacity expansion or shareholder friendly actions, that lead to its debt to EBITDA ratio exceeding 1.5x for an extended period.

### Upward scenario

We may raise the ratings on Sercomm if:

- the company could expand its operating scale substantially with an enlarged and more diversified customer base so that cash flow stability would improve with less impact from single client; or
- the company could broaden the scope of its product offering and optimize its product mix with a higher contribution from the high-margin segment. An EBITDA margin sustainably above 10% could indicate such strengthening.
- At the same time, Sercomm continues to maintain its ratio of debt to EBITDA below 1.5x.

## Related Criteria & Research

### Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- 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: Principles Of Credit Ratings - February 16, 2011

## Related Research

– Taiwan Ratings' Ratings Definitions – August 10, 2020

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## Ratings List

### Ratings Affirmed

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#### Sercomm Corp.

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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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