

Media Release:

Pegatron Corp. Ratings Affirmed At 'twAA-/twA-1+'; Liquidity Revised To Strong From Adequate; Outlook Stable

January 20, 2022

Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on **Pegatron Corp.** The outlook on the long-term rating is stable. The ratings on Pegatron reflect the company's good market position as one of the leading global electronics manufacturing service providers, as well as the company's above-average technology and management capability to provide very large volume and time-to-market services. Heightening industry risk due to rising competition, along with Pegatron's high customer concentration and persistent margin pressure temper the company's credit strengths.

We have upwardly revised our assessment of Pegatron's liquidity to strong from adequate, which has no impact on the ratings. The strong liquidity assessment mainly reflects Pegatron's lower short-term borrowings needs over the next 12 to 24 months, thanks to the company's stronger working capital management. In addition, Pegatron will continue to generate strong funds from operations of new Taiwan dollar (NT\$) 30 billion-NT\$35 billion per year in 2022-2023 and maintain an abundant cash balance. This is despite the company's higher capital expenditure during the same period. We forecast Pegatron's ratio of liquidity sources to liquidity uses to be 1.6x-1.7x over the next 12 months and 2.0x-2.5x for the subsequent 12 months.

We believe Pegatron to have strong banking relationships and a high credit standing domestically, which could be evidenced by its low interest rate for bank loan and corporate bond. In addition, the company has sufficient headroom on its financial covenants under our forward-looking analysis.

Outlook

The stable rating outlook reflects our view that Pegatron will be able to slightly improve its profitability over the next two years. The company's good capacity management along with the materially improving performance of its key subsidiaries supports this view. In addition, Pegatron could maintain its low ratio of debt to EBITDA at 0.4x-0.6x over the same period, underpinned by the company's stable operating cash flow and abundant cash on hand. This is despite our forecast of the company's higher capital expenditure in 2022-2023, which is mainly

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to support overseas investment for production base diversification and capacity expansion for Pegatron's key subsidiaries.

Downside scenario

We could lower the long-term issuer credit rating if:

- Pegatron's profitability in terms of return on capital, falls consistently below 10% due to rising cost structure, weakening technology advantages amid increasing competition in the electronics manufacturing service industry, or a lower capacity utilization rate possibly due to the loss of key customers; or
- The company takes on a more aggressive financial policy such that its debt to EBITDA ratio increases to more than 1.0x for an extended period. This could result from either Pegatron taking on more debt due to overly aggressive capital expenditure or overseas investment for production base diversification, or a weakened competitive advantage that erodes Pegatron's margin.

Upside scenario

Despite the likelihood is low over the next two years, we may raise the rating if:

- Pegatron can make material gains in its market share in the electronics manufacturing service industry while meaningfully lowering the company's business concentration. At the same time, Pegatron's capital expenditure or investment plan would have to remain prudent, and the company would need to keep its debt to EBITDA ratio comfortably below 1.5x.

Related Criteria & Research

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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

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

Ratings List

Ratings Affirmed

Pegatron Corp.

Issuer Credit Rating

twAA-/Stable/twA-1+

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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