Bulletin:

GlobalWafers' Stronger Capital Structure Offers Rating Support After Failed Acquisition

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Taiwan Ratings Corp. said today that an improved capital structure underpins our ratings on **GlobalWafers Co. Ltd.** (twAA-/Stable/twA-1+) despite the company's recent failed acquisition attempt. We now assess GlobalWafers will maintain a stronger capital structure than our previous assumption suggested, given the company has been unable to acquire Germany based Siltronic AG.

GlobalWafers' acquisition of Siltronic fell through because the German government failed to approve the deal by the transaction deadline of Jan. 31, 2022. We based our earlier assumptions for the ratings on GlobalWafers on the smooth completion of the acquisition. GlobalWafers has since announced that it will shift the capital it raised for the acquisition to be used as capital expenditure (capex) in 2022-2024 to meet strong customer demand for its products and maintain growth.

We now forecast GlobalWafers' capex needs will not materially increase its debt leverage based on the company's still-strong operating cash flow generation and disciplined expansion strategy. GlobalWafers has a net cash position on an adjusted basis as of Sept. 30, 2021. The redirection of funds will lead to a significant increase its capex, possibly reaching new Taiwan dollar (NT$) 100 billion over the next three years if favorable market conditions persist. However, GlobalWafers has secured confirmed orders with prepayments from its key customers for a significant portion of the planned capex and the company is likely to remain prudent in the timing of the remaining capital spending based on customers' confirmed orders and prepayments. By contrast, our previous assumption was for GlobalWafers' ratio of debt to EBITDA could remain above 2x in 2022-2023 before gradually declining with the successful acquisition of Siltronic.

The more aggressive spending plan is still likely to result in lower utilization and higher production costs, leading to some margin pressure if market demand does not grow as the company expects in 2023-2024. However, this is unlikely to materially weaken GlobalWafers' profitability in 2022-2023, given limited new capacity additions and continuing undersupply for 8-inch and 12-inch wafers, in our view. In addition, GlobalWafers could sustain its superior margins without the negative impact of consolidating Siltronic, because the Siltronic generates significantly lower margins than GlobalWafers. Instead, GlobalWafers will now maintain stronger cash flow to support its capex needs while maintaining a high cash balance on hand over the next two years.

GlobalWafers' stronger capital structure could offset the negative credit effect of the lost opportunity to materially enhance its competitive position in the global semiconductor wafer market through the acquisition. Acquiring Siltronic would have materially increased GlobalWafers' market position to the second largest globally in terms of revenue along with a more diverse product offering.

The acquisition would also have narrowed GlobalWafers' technology gap with leading players because GlobalWafers could possess a more competitive intellectual assets pool and significantly higher exposure to premium products such as advanced epitaxy and silicon on insulator wafers. Nonetheless, GlobalWafers could still grow its market position through organic expansion or small acquisitions, albeit at a slower pace, based on its improving technology capability and strong cost efficiency. However, we believe that GlobalWafers is unlikely to take on large acquisitions over the next one to two years, given increasing global protectionism over key industries, particularly related to supply and technology security for semiconductors.

This report does not constitute a rating action.