Media Release:

GlobalWafers Co. Ltd. 'twAA-/twA-1+' Ratings Affirmed On Low Debt Leverage; Outlook Stable

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Rating Action Overview

- **GlobalWafers Co. Ltd.** is a Taiwan-based semiconductor wafer manufacturer generating EBITDA of new Taiwan dollar (NT$) 16.1 billion in the first three quarters of 2021.
- The company's capital structure will likely stay much stronger over next two to three years than under our previous assumption, given the company's recent failed acquisition of Siltronic AG, despite GlobalWafers' aggressive capex plan over the same period.
- The failed acquisition attempt could lead to a moderately weaker position for GlobalWafers in the global semiconductor wafer market than we previously assumed albeit with stronger profitability than if the acquisition had gone succeeded.
- On Mar. 24, 2022, Taiwan Ratings Corp. affirmed its 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on GlobalWafers.
- The stable rating outlook embeds our view that strong demand and GlobalWafers' improving product offerings will sustain strong profitability and cash flow generation to fund the company's large capex plan without materially weakening its financial leverage over the next two years.

Rating Action Rationale

GlobalWafers' capital structure could remain much stronger than we had previously assumed and anchor the ratings. We believe that GlobalWafers could sustain minimal debt leverage over the next one to two years, despite its aggressive capex plan to support growth following GlobalWafers' failed acquisition of Siltronic. GlobalWafers plans to shift the capital it raised for the acquisition to instead use as capex in 2022-2024. This will help the company to meet strong customer demand for its products and pursue business growth. The redirection of funds will lead to a significant increase its capex, possibly reaching NT$100 billion over the next three years if favorable market conditions persist.

However, under our new forecast, GlobalWafers' capex needs will not materially increase its debt leverage, given the company's still-strong operating cash flow generation and disciplined expansion strategy. GlobalWafers has secured confirmed orders with prepayments from its key customers for a significant portion of the planned capex. We also believe that the company will remain prudent in the timing of its remaining capital spending based on customers' confirmed orders and prepayments. GlobalWafers has a net cash position on an adjusted basis as of Sept. 30, 2021, and the company is likely to maintain this position in

2022-2023, in our view. GlobalWafers could generate stronger profitability in 2022-2023 despite high product costs. Limited new capacity additions and continuing undersupply for 8-inch and 12-inch wafers could materially increase wafer prices in 2022, given still-material demand growth. Higher average selling prices could more than offset the negative effect of a strong NT$ and rising material and logistics costs to support a higher EBITDA margin in 2022-2023. GlobalWafers' more aggressive spending plan over this period is unlikely to result in significant pressure on utilization and wafer prices over the same timeframe, in our view. In addition, GlobalWafers could sustain its superior margins given there will be no negative effect from Siltronic's lower margin had the acquisition gone ahead.

Lower debt leverage and stronger profitability could mitigate the negative effect of the failed acquisition. GlobalWafers' competitive position will now likely weaken compared with our previous assumption now that the company failed to acquire Siltronic. The acquisition could also have narrowed GlobalWafers' technology gap with leading players because the company have possessed a more competitive pool of intellectual assets if it acquired Siltronic and significantly higher exposure to premium products such as advanced epitaxy wafers. We believe that GlobalWafers is unlikely to take on large acquisitions over the next one to two years due to increasing global protectionism of key industries, particularly related to supply and technology security for semiconductors.

GlobalWafers could still grow its market position through more aggressive organic expansion or smaller acquisitions based on the company's improving technology capability and strong cost efficiency. However, the pace could be much slower and come with significant uncertainty on product developments and the acquisition of long-term contracts from its clients amid accelerating capacity expansion in the industry. Leading wafer suppliers, including GlobalWafers and Siltronic, are materially increasing their capex in view of strong demand and lower chances of executing large-scale acquisitions.

Based on those factors, we have revised the comparative rating analysis of GlobalWafers to negative from positive. However, we believe that GlobalWafers' stronger capital structure and profitability without consolidating Siltronic could fully offset the negative credit effect of the lost opportunity to materially enhance GlobalWafers' competitive position in the global semiconductor wafer market.

Large cash on hand and strong funds from operations support strong liquidity. GlobalWafers has maintained a high cash level for the proposed Siltronic acquisition while at the same time GlobalWafers' strong profitability has also generated strong operating cash flow. Without the expense of the acquisition, GlobalWafers' liquidity sources will be about 2.5x and about 1.8x its liquidity uses in 2022 and 2023. This calculation includes the company's high capex and moderate cash dividends over the same period. We have therefore revised our liquidity assessment for GlobalWafers to strong from adequate.

Outlook

The stable rating outlook reflects our view that GlobalWafers could sustain its robust profitability to support its high capex plans and remain debt free on an adjusted basis over the next one to two years, given its failed acquisition of Siltronic, and strong demand and short supply for semiconductor wafers. The outlook also factors in our view that GlobalWafers will maintain good financial discipline and time its capex based on market conditions and confirmed orders backed by prepayments from its customers, which will limit the company's debt increase.

Downward scenario

We may lower the rating on GlobalWafers if:

- The company's technology positioning weakens materially and induces intense competition and severe pricing pressure from GlobalWafers' clients or the loss of key customers. Material and sustained deterioration in its profitability or market share would indicate such weakness; or
- GlobalWafers' ratio of debt to EBITDA remains above 1.5x without signs of improvement because its profitability remains much weaker than we currently forecast, or if the company takes on large-scale acquisitions or becomes more aggressive with its capex or shareholder friendly actions than we assume in our base case.

Upward scenario

The likelihood of an upgrade is low over the next 12 months because it will take time for GlobalWafers to materially strengthen its competitive position through organic growth. However, we may upgrade GlobalWafers if:

- The company enhances its market position through strong growth in high-end products, gains meaningful market share from its top-tier clients, and materially narrows its technology and reputation gap with market leaders, as indicated by an improving average selling price and value share growth in premium products.
- At the same time, the company sustains its ratio of debt to EBITDA materially below 1.5x with sustainable free operating cash flow, supported by an improved profit margin and significantly larger revenue scale.

Our Base-Case Scenario

- S&P Global's projection for world GDP growth of 3.4% in 2022 and 3.2% in 2023 following 5.6% growth in 2021.
- S&P Global forecast for global IT spending and semiconductor sales to increase by about 5.1% and 8% in 2022, which exceeds projected growth in global GDP over the same period and reflects our view that corporate IT spending could pick up and offset the likely tapering of remote working and learning demand for PC and other devices.
- After 10.4% growth in GlobalWafers' sales in 2021, Taiwan Ratings' base case scenario is for about 15%-17% sales growth in 2022 and low to mid-single-digit growth in 2023 due to strong semiconductor wafer demand driven by the accelerated rollout of 5G mobile

communications, remote working and remote learning, as well as a recovery in auto market that aggravates wafer supply tightness.
  - Wafer shipments to grow by a high-single digit for all diameters as a whole in 2022 and 2023, propelled by robust demand from 5G, automotive, Internet of Things (IoT)s, data center and cloud computing, as well new facilities added in 2023.
  - Blended average selling price (ASP) to rise by high single digit in 2022 due to supply tightness and limited capacity growth. ASP could stay flat or decline by a low-single digit in 2023 due to a high base in 2022, capacity additions, and slowing demand growth.
- Gross margin before depreciation and amortization will remain largely flat in 2021 despite higher prices. It will improve significantly to 52%-53% before moderating slightly in 2023, because ASP growth will outweigh cost increases and the effect of NT$ appreciation.
- The expense ratio will decline slightly in 2022-2023 from 9.1% in 2021 with a large revenue scale and the absence of major acquisition related expenses. The company also booked NT$1.57 billion non-operating expense associated with the failed Siltronic acquisition in 2021.
- We expect GlobalWafers' capex to increase to NT$20 billion-NT$25 billion in 2022 and NT$30 billion-NT$40 billion in 2023 based on the company's plan to sharply raise its capex after failing to acquire Siltronic.
- Prepayments from clients will form 20% of the planned capex.
- We assume the company's cash dividend payout ratio will remain at 55%-60% in 2022-2023 due to GlobalWafers' planned high capex.
- We net GlobalWafers' debts with about 95% of its cash and cash equivalents holdings to arrive at our adjusted debt which takes into account inaccessible overseas cash subject to repatriation tax.

Based on the assumptions, we arrive at the following credit measures:

- EBITDA margin of 42%%-44% in 2022-2023, up from about 38.7% in 2021.
- Net cash position on an adjusted basis in 2021-2023.
- Return on capital of 30%-50% in 2021-2023.

Liquidity

The short-term rating on GlobalWafers is 'twA-1+'. We believe that GlobalWafers has strong liquidity to meet its needs over the next 24 months, based on our view that the company's ratio of liquidity sources to liquidity uses will be 2x over the next 12 months and about 1.5x over the following 12 months. We expect GlobalWafers' liquidity sources will continue to exceed uses even if the company's EBITDA was to decline by 30%. GlobalWafers is likely to absorb high-impact, low-probability events, with limited needs for refinancing, given its high cash balance and stable operating cash flow, and prudent financial management.

We view GlobalWafers has a sound relationship with banks and a generally satisfactory standing in the credit markets in Taiwan. This is indicated by the company's low financing cost and multiple access to taper the financial market. We also believe that GlobalWafers as having generally prudent risk management, as indicated by its sustainably low debt leverage over the past several years and good liquidity management supported by steady cash flow generation and ample cash balance on hand in the past several years. There is no financial covenant on GlobalWafers' existing debts.

Principal Liquidity Sources:

- Cash and short-term investments of NT$56.9 billion as of the end of September 2021.
- Cash flow from operations of NT$30 billion-NT$35 billion annually over the 24 months ending September 2023.

Principal Liquidity Uses:

- Debt maturities of NT$6.6 billion over the 12 months ending September 2022.
- Capex of NT$30 billion-NT$40 billion over the 24 months ending September 2023.
- Working capital outflows of less than NT$1.5 billion over the 24 months ending September 2023.
- Cash dividends of NT$10 billion-NT$12 billion over the 12 months ending September 2022

Rating Score Snapshot

Issuer Credit Rating: twAA-/Stable/twA-1+
Note: All scores are in comparison with global obligors.

Business risk: Satisfactory
– Country risk: Low risk
– Industry risk: Moderately high risk
– Competitive position: Satisfactory
Financial risk: Modest
– Cash flow/Leverage: Modest
Anchor: twaa

Modifiers
– Diversification/Portfolio effect: Neutral (no impact)
– Capital structure: Neutral (no impact)
– Financial policy: Neutral (no impact)
– Liquidity: Strong (no impact)
– Management and governance: Satisfactory (no impact)
– Comparable rating analysis: Negative (-1 one notch)
Stand-alone credit profile: twaa-
Group credit profile: twaa-
Entity status within group: Core (The ICR reflects the entity's SACP of 'twaa-')

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	
GlobalWafers Co. Ltd.	
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.