

Media Release:

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

May 24, 2022

Rating Action Rationale

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. as a result of 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 the company's profitability and competitiveness.

The ratings also embed our view that Sercomm's ratio of debt to EBITDA could temporarily weaken to about 2.0x in 2022 before recovering to below 1.5x in 2023. This is mainly due to significant working capital outflow for rapid revenue growth and heightened inventory levels amid tightening component supply and congested seaborne traffic.

We have revised our assessment of Sercomm's liquidity to adequate from strong, which has no impact on the ratings. The revision mainly reflects Sercomm's increasing working capital needs. Nonetheless, we see Sercomm's ratio of liquidity sources to liquidity uses remaining adequate at 1.2x-1.4x in the 12 months ending March 31, 2023.

We believe Sercomm has prudent risk management which is characterized by a high cash balance 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 and abundant bank lines. None of Sercomm's debt carry financial covenants.

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

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- 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

Sercomm Corp.

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 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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