Research Update:

Wiwynn Corp. Ratings Affirmed At 'twA/twA-1'; Outlook Remains Negative

August 24, 2022

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Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on **Wiwynn Corp.** The outlook on the long-term rating remains negative. The ratings on Wiwynn reflect the company's good market position as one of the largest suppliers by market share of tailor-made hyperscale data center servers through the ODM-direct model.

Efficient R&D supports the company's good operating efficiency which together with close collaboration with its key clients support the company's above average profitability. A lack of design and technology ownership, highly concentrated customer base and product mix, and strong customer bargaining power temper Wiwynn's credit profile. The company's debt could remain elevated over the next one to two years due to increasing capital expenditure to expand capacity. However, the company's strong EBITDA growth could help to gradually lower its debt leverage. The long-term rating on Wiwynn remains capped at one notch above the parent Wistron group credit profile on a global rating scale, reflecting our view that the company is an insulated subsidiary within the group.

Outlook

The negative rating outlook reflects the material likelihood that the financial leverage of Wiwynn's parent company, Wistron, could remain weak over 2022-2023. Significant working capital outflow over the past year and growing capital expenditure to fund capacity expansion prevented Wistron from deleveraging. Our base forecast shows Wistron's debt to EBITDA ratio remaining weak at 6.5x-6.8x in 2022 and 5.5x-5.8x in 2023 before a gradual recovery to close to 5x in the following few years. However, prolonged supply chain disruption, margin erosion, or more aggressive capital expenditure than under our base case could curb Wistron's ability to restore its cash flow generation and improve its debt to EBITDA ratio to close to 5x over the projection period.

Downward scenario

We could lower the long-term rating on Wiwynn if:

- Wistron's debt to EBITDA ratio remains above 6x over the 12 months ending June 2023 without signs of debt leverage lowering towards 5x. This could result from:
  - Wistron's inability to restore its operating cash flow due to prolonged supply chain bottlenecks that lead to more working capital needs beyond our current forecast,
  - Considerably higher capital expenditure or investments than under our base case, or

  - Wistron's profitability deteriorates substantially due to a loss of critical customers or more intense pricing competition in the electronics manufacturing services industry during a deep industry downturn, or weaker cost efficiency at the firm's new production capacity outside China.
- Wiwynn's debt to EBITDA ratio remains above 1.5x for an extended period without a sign of recovery. This may occur if:
  - The company's debt level grows significantly because Wiwynn becomes more aggressive in capital expenditure than our current forecast suggests, or the company's cash conversion cycle lengthens materially due to prolonged supply chain bottlenecks, an increase of self-owned production capacity and production base diversification; or
  - Wiwynn's revenue or profitability weaken substantially due to intense competition or deteriorating R&D strength relative to its peers which induces severe pricing pressure from its clients or the loss of key customers.

Upward scenario

We could revise the outlook back to stable if:

- Wistron's debt to EBITDA ratio improves to close to 5x with a firm outlook for further deleveraging. This could happen if there is a resolution to current semiconductor shortages and pandemic-associated supply chain disruptions result in significant destocking at Wistron, or the company significantly grows its revenue and margin with acceleration in inventory turnover that leads to significant growth in free operating cash flow. At the same time, Wiwynn would need to maintain its debt to EBITDA ratio 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 – November 11, 2021

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

Ratings List

Ratings Affirmed

Wiwynn Corp.	twA/Negative/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.