

Bulletin:

Vanguard's Capital Structure Can Cushion The Looming Downturn

November 1, 2022

Taiwan Ratings Corp. said today that Vanguard International Semiconductor Corp. has sufficient financial buffer to withstand a reduction in downstream inventory levels that could last for a few quarters into 2023. We believe the Taiwan-based chipmaker (twA+/Stable/twA-1) will remain debt free on an adjusted basis over the next two years. This is despite weakening cashflow and an increase in capital expenditure (capex) for expansion.

We expect Vanguard's average utilization rate to decline to about 85% in 2022 and 70%-80% in 2023, from our previous base case of 100% and 95%, respectively. The company's revenue started to decline year on year in the September quarter of 2022, after several quarters of growth since early 2020. The downturn is amid weakening global demand for most downstream consumer electronic devices. Demand for Vanguard's major products has been hit, particularly for small and large panel display driver integrated circuits, and certain power management product. The deteriorating market condition will add more pressure to the company's average selling prices, particularly in 2023.

Vanguard's decision to slow down equipment move-in for its new capacity, and the financial commitment from clients will reduce the financial burden from the higher capex. In addition, demand from 5G, industrial, and auto electrification applications will support Vanguard's utilization and average selling prices amid the market downturn. These factors should moderate Vanguard's cash outflow and enable the company to maintain a net cash position over 2022-2023.

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